

TNO-paper

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Employability through covenants

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Abstract

The European Social Model (ESM) is under siege. European criteria to curb national budget deficits put social policy expenditures within tight boundaries. Slow and low economic growth, accompanied by rising unemployment enhance the need to cut costs. Consequently, the sustainability of the traditional unemployment insurance systems is questioned. How can a balance between flexibility and security ('flexicurity') be arrived at? How can a balance be found that takes into account the evolution on overall life course developments and social security systems? How can a sustainable employment insurance system be guaranteed as a major element of the ESM?

The European Social Model is an attempt to have the best of both worlds: a competitive economy with a system of social drawing rights, geared to the needs of its citizens, and preventing the wide disparities in income and life chances characteristic of the US. The model will have to be brought about mainly through the 'open method of coordination', already valid for the European Employment Strategy and the monitoring of the Growth and Stability Pact, to which the method owes its origin. It does not rely on sanctions, so much as on guidelines, best practices, mutual learning and peer reviews, benchmarking and agreed forms of monitoring. In fact, even the sanctions in the Growth and Stability Pact are not or inconsistently applied and discussions gather momentum to make the rules of the Pact more flexible. In the EES, however, the very notion of sanctions is absent as it is in the 'open method of coordination' (OMC) for the employment strategy and the social model. The OMC is 'soft' rather than 'hard' law. This contribution proposes the application of *covenants* as another form of soft law. We take covenants as the eventual nucleus of reforms of the social security system in the Netherlands, and possibly in other member states of the EU as well. Covenants are agreements between partners to cooperate on achieving common goals.

Given that an optimal rate of labour force participation is a shared goal of the EU member states it follows that next to the job, the career and the insertion of jobs and careers in the whole of one's life course, are issues to be dealt with. One prominent key to life long participation is employability. On that theme we focus, and our question is how the instrument of the covenant may help improve employability. Covenants on employability are in our view the building blocks of a reformed social security system, in which next to the rule of 'making work pay' a new rule reigns as well: 'making transitions pay' (Schmid 2002: 74). That is: if a worker has no externally transferable skills (usable on the external labour market) it is likely that the same worker will have few internally transferable skills (usable on the internal labour market) as well *and vice versa*. Given that transferable skills have to be acquired more and more during employment mechanisms are needed to ensure that such skills indeed can be acquired. Our thesis is that without such mechanisms the training market for the employed will develop even more features of failure than exist today (OECD 2003: 246-249; 273-275). Covenants provide such mechanisms. Covenants define 'rights and duties' not only for employees and employers, but also for actors and institutions like employer organizations, unions, insurance organizations, educational institutions and other relevant public and private institutions. Agreeing covenants is rather different than issuing rules or laws. Instead of enforcing institutionalized forms of 'insurance', covenants build on trust and social cohesion, thus, on forms of 'ensurance'. They are an example of what nowadays is called 'soft law' or 'soft regulation', and fit in with the larger European trends on coordination. Yet we do not advocate covenants for the European

level, if only because none of the more essential partners (Council, Commission, European trade unions and employers) possesses the muscle to bring them about.

We start with a summary overview of the Lisbon targets and their impact so far on the policies of and in the member states of the EU. We then proceed with data on and problems associated with the target of enhancing employability by means of pushing continuous vocational training (CVT). Next, we sketch some Dutch experiences with covenants, and point to critical success factors. Our contribution will elaborate on two issues. First, the already mentioned example of employability, in particular continuous vocational training within the European Union and illustrated by some relevant, mainly, OECD-data on the subject. Second, an argument about covenants on employability as a contribution to the transformation of an unemployment into an employment insurance.

1 Introduction

1.1 A European Social Model?

Issues of employment and social security are relatively recent priorities on the European agenda. They are characterized by medium to low national capacities to determine outcomes and contrast starkly to other European issues. The scheme drawn up several years ago by Scharpf (1999: 117) still holds today:

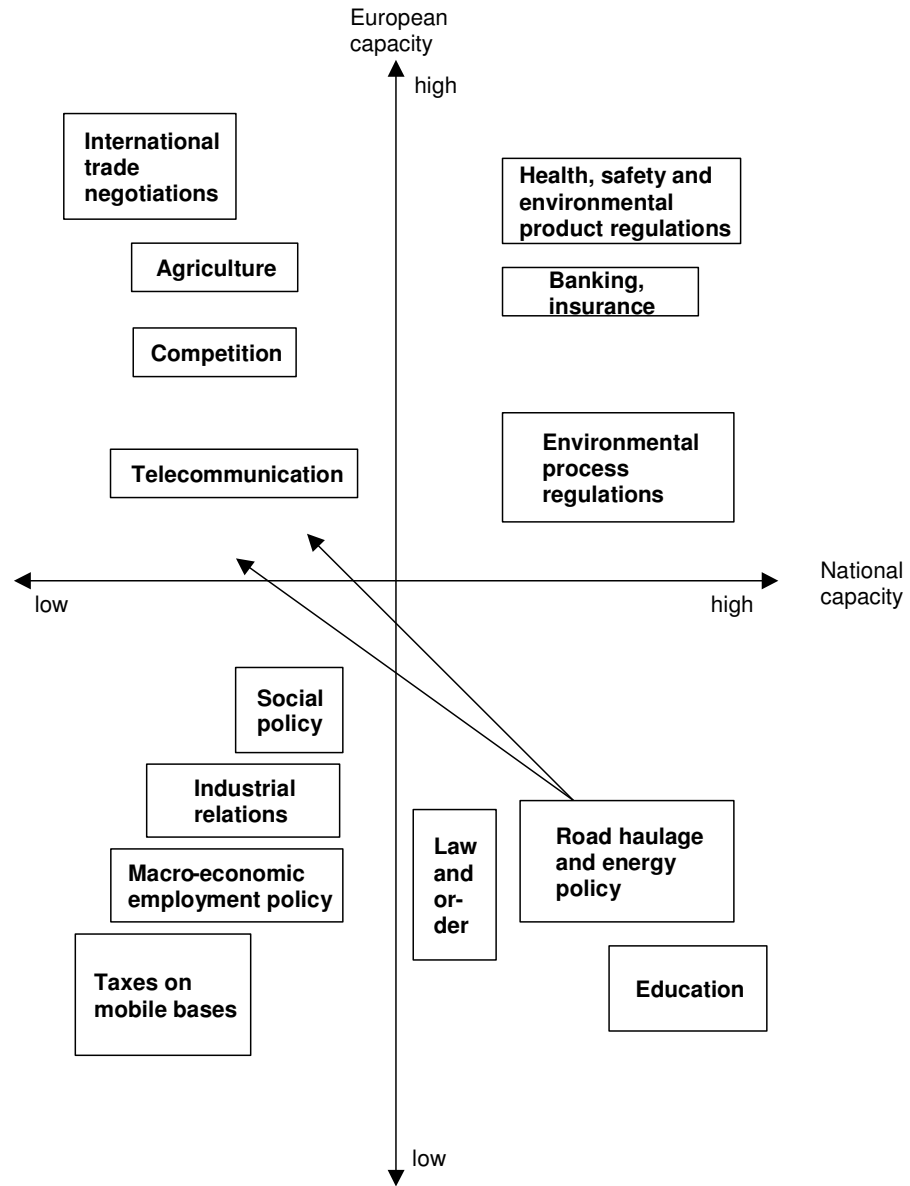


Figure 1: National and European problem solving capacities

Employment, industrial relations, and social policy are therefore more national than European. On the other hand, the national capacity to manage such domains and get them to comply with for instance the EES and the rudimentary European Social Model (ESM) is limited. And indeed, such is recognized in the constant plea by for example the European Commission to invest in a social dialogue: to invest in the construction of enduring relationships between social partners and governments ‘at all levels’. At the same time, the very distance between the high aims of for example the Lisbon targets and the sketched limited capacities should warn us not to expect too much, too soon.

1.2 Lisbon strategy

The Lisbon Strategy is a commitment to bring about economic, social and environmental renewal in the EU. In March 2000, the European Council in Lisbon set out a ten-year strategy to make the EU the world's most dynamic and competitive economy. Under the strategy, a stronger economy will drive job creation alongside social and environmental policies that ensure sustainable development and social inclusion¹.

In March 2000, the EU Heads of States and Governments agreed to make the EU “the most competitive and dynamic knowledge-driven economy by 2010”. Although some progress was made on innovating Europe's economy, there is growing concern that the reform process is not going fast enough and that the ambitious targets will not be reached. In particular, it was agreed that to achieve this goal, an overall strategy should be applied, aimed at:

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernising the European social model, investing in people and combating social exclusion;
- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.

The Lisbon Summit was designed to mark a turning point for EU enterprise and innovation policy: it saw the high-level integration of social and economic policy with practical initiatives to strengthen the EU's research capacity, promote entrepreneurship and facilitate take-up of information society technologies. The main issues for the realisation of the Lisbon agenda were:

- the necessary investment in R&D, that is three per cent of GDP;
- reduction of red tape to promote entrepreneurship;
- achieving an employment rate of 70 per cent (60 per cent for women).

However, nearly half-way through the implementation period, many critics complain that not much progress has been made on achieving these ambitious goals. After the recent global economic downturn, governments seem to have been reluctant to push through difficult and unpopular economic reforms or to focus on increasing their na-

¹ In the short history of the EES, Lisbon stands out as the very first occasion where quantifiable targets were integrated into the strategic employment aims of the Union. The main source used for this Section is <http://www.euractiv.com>.

tional budgets for research and innovation. Many economists claim that, as a result, the EU has lost valuable ground on its main competitors, the US and Japan.

In its traditional Spring Report, which served as a basis for the Spring Summit in March 2004, the Commission set out to assess the progress made towards the Lisbon goals. This report was accompanied by the Implementation Report of the Broad Economic Policy Guidelines 2003-2005, the Joint Employment Report, and the Implementation Report on the Internal Market Strategy. All these reports paint a dire picture of the state of the EU's competitiveness. The Commission has therefore urged governments to give the Lisbon strategy fresh impetus. In particular, it outlined three priority areas:

- Investment in networks and knowledge: starting the priority projects approved in the 'European Growth Initiative';
- Strengthening competitiveness in industry and services: stepping up efforts in the areas of industrial policy, the services market and environmental technologies;
- Increasing labour market participation of older people: promoting active ageing by encouraging older workers to work for longer.

At their meeting in Brussels on 25-26 March 2004, EU leaders adopted conclusions on strategies to meet the Lisbon targets. "The European Council reaffirms that the process and goals remain valid. However, the pace of reform needs to be significantly stepped up," reads the paper. Moreover, governments pledged to "demonstrate the political will to make this happen", and they appointed the former Dutch Prime Minister Wim Kok to head a high-level expert group to give new impetus to the Lisbon strategy (Employment Taskforce, see also Committee Kok, November 2003, its first research report). The group's mission is to assess the instruments and methods used to date and to involve Member States and stakeholders more closely to ensure the Lisbon objectives can be delivered.

The high level expert group presented its review of the Lisbon strategy to the European Commission on 3 November 2004 (High Level Group (Wim Kok et al.), November 2004), based on earlier research (Committee Kok, November 2003). The report paints a gloomy picture of the state of the EU's economy and analyses the reasons behind a lack of progress on the Lisbon agenda. While generally agreeing with this analysis, stakeholders have criticised the lack of specific remedies suggested by the report. Moreover, there seems to be considerable disagreement as to the stance that the report takes on the fundamental balance between economic, social and environmental welfare. Precisely these criticisms show the lack of mechanisms for improvements, applicable also to employability:

- European employers' association UNICE said the report lacked specific suggestions about how to breathe fresh life into the Lisbon strategy. "The report does not include clear recommendations for what governments should do to make Europe more competitive," complains the organisation.
- Eurochambres, the association of European chambers of commerce and industry, criticises that the report is not clear on how economic, social and environmental welfare are linked. "Currently, the strategy is imbalanced towards the social and environmental pillars. We must rebalance and make the economy the top priority for the years to come," it said.
- The European Trade Union Confederation (ETUC) points to several shortcomings in the Kok report, criticising that it focused merely on two aspects of the Lisbon strategy, namely employment and growth. In ETUC's view, equal weight should be given to social cohesion and sustainable development. "Lisbon is about

strengthening social cohesion and sustainability [...]. Lisbon is definitely not about scaring European workers and citizens with a narrow agenda of pure deregulation and cutbacks in their living and social standards being decided over their heads,” said John Monks, Secretary General of ETUC.

- The EPP group in the European Parliament blames national governments for their inability to push through the Lisbon aims. “An improvement of the framework for business often fails due to national egoisms,” said MEP Alexander Radwan. “It is no wonder that the EU is unable to improve its competitiveness.” For the EPP, the report of the Kok expert group can be seen as a ‘declaration of bankruptcy’.
- The Socialists in the EP underlined the need to maintain the balance of the Lisbon agenda and warned about the risk of using it to undermine social priorities. “The Kok report’s lack of precision [...] creates a risk that it will be misinterpreted and misused to undermine the EU’s broad economic, social and environmental agenda,” said the groups leaders in a statement. “This is regrettable since the report itself ringingly endorses that agenda.”

The EU heads of state and government having had a first look at the Kok report during their European Council meeting on 4-5 November 2004, the report will now serve the European Spring Council in March 2005 as a basis for its mid-term review of the Lisbon strategy. What does the report state in more detail?

In Lisbon, in 2000, the heads of states and government of the EU-15 decided to start an economic and social reform process with the ultimate aim of becoming by 2010 “the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment”. Wim Kok’s report takes a gloomy view on the progress made in the last four years. The report, adopted by the Commission on 3 November, states that the “disappointing delivery” is due to “an overloaded agenda, poor coordination and conflicting priorities” but it blames mainly the lack of political will by the member states.

The report provides an analysis of the reasons for lack of progress on the Lisbon agenda. It paints a mixed picture as some progress was made: the employment rate rose from 62.5 per cent in 1999 to 64.3 per cent in 2003 and overall female employment rose considerably too. But it says that ‘net job creation’ stopped in 2001 and that the target of 70 per cent employment rate by 2010 will be difficult to reach (see also European Commission, August 2004; October 2004: Chapter 3).

The Kok report rejects proposals for the 2010 deadline target to be lifted. It also explicitly states that the EU should not become a “copy-cat of the US”. It highlights the external challenges (US and Asian growing economies), describes the overwhelming internal challenge of a ‘greying’ or ageing Europe and points to the EU-10 enlargement as another source of concerns and opportunities.

The Lisbon strategy is too broad to be understood, says the report. “Lisbon is about everything and thus about nothing. Everybody is responsible and thus no-one. The end result of the strategy has sometimes been lost. An ambitious and broad reform-agenda needs a clear narrative, in order to be able to communicate effectively about the need for it.” All member states have to take ownership of Lisbon and the Commission must be prepared to name and blame those that fail as well as ‘fame’ the ones that succeed.

The Kok report (High Level Group (Wim Kok et al.), November 2004) then goes on to make policy recommendations in five areas:

- Knowledge society:
 - To attract and keep the best researchers: an action plan to reduce the administrative obstacles for moving to and within the EU for world class scientists and researchers and their dependants. (to be implemented by Spring 2006);
 - To make R&D a top priority: establishment by end 2005 of a European Research Council;
 - To promote innovation: agree before the 2005 Spring Summit on the Community Patent (an earlier version of the report mentioned the possibility of English-only for the patent, but this was dropped in the final version).
- Internal Market (see the Kok report).
- Improve climate for entrepreneurs (see the Kok report).
- Build an adaptable and inclusive labour market:
 - Implement the recommendation of the European Employment Taskforce in 2003;
 - National strategies for life-long learning by 2005;
 - Member states to develop a comprehensive active ageing strategy by 2006 (“radical policy and culture shift away from early retirement”).
- An environmentally sustainable future (see the Kok report).

No practical recommendations are made concerning employability enhancement of the EU workers and citizens, but the Kok report emphasized three aspects with reference to the labour market, especially to investment in a high-skilled labour force (High Level Group (Wim Kok et al.), November 2004: 31-34). First to increase the adaptability of workers and enterprises, by finding a balance between flexibility and security (‘flexicurity’). Second to make more effective investments in human capital. Lifelong learning is in the interest of people and in that of firms, whose most precious asset is its people. Third, to underpin economic growth more people must be attracted into employment, especially older workers.

2 Employability in Europe

2.1 Introduction

Our point of departure is a simple rule: employment follows employability (Korver 2000). Employability for every person is a crucial condition to participate socially and economically. As such employability is social security at the individual level: the ability to provide one's income. Policies aiming at participation, employment and social security from a life course perspective should therefore focus on employability enhancement. Too often initiatives for life course arrangements threaten to become limited to salary savings schemes instead of long term investments in our knowledge economy through investing in people (Schippers, 2004). Employability simply means that a person has skills that keeps him or her employed in present and future jobs. If one's employment is not at risk we can speak of sustainable employability. Employability can be reached by enhancing individual competences, and by policies that improve the fit between individual competences and jobs in a continuously changing economy with changing work organizations.

Based on quantitative and qualitative information we discuss employability at European level from different angles:

- training and employability;
- positions of target groups;
- quality of jobs.

An emphasis is laid on training. Our statement is that the market for training does not work well. On the one side she suffers from the Mattheus principle – the higher educated get trained more – engraving already existing frontiers and barriers on the labour market. On the other hand, the shift from firm specific skills to more general skills may be a cause to abandon training initiatives completely due to the 'hold-op phenomenon'. We will try to illustrate that the mechanism to enhance employability through training is not working properly. Our argument's main empirical ground are OECD data on continuous vocational training (CVT). We will support our point that employability is insufficiently enhanced by illustrating that lack of training effects weak labour market groups the hardest, while these groups represent the largest reservoirs of underused labour potential. Additionally, we will try to make plausible that employability is also enhanced through improving the quality of work, but that these improvements have a long way to go. In general it is concluded that the Lisbon agenda will probably not be met if we may take training activities as an indicator for the goals set for employment.

2.2 Improving employability by training

One way of improving employability is by improving labour force skills and competences through education and training systems. Two questions will be addressed: are workers' skills upgraded by training?; and, if so, does it have impact on their labour market performance?

Upgrading skills is part of a comprehensive lifelong learning strategy. The OECD *Employment Outlook* of 2003 has gathered and analyzed data on formal continuous vocational training (CVT) in OECD countries (Organisation for Economic Co-operation and Development, 2003: 237-276). CVT accounts for at least 60% of adult education

and training in almost all OECD countries. On average, two-thirds of total CVT is (partially) provided or paid for by the employer. However, training participation and intensity vary considerably across countries and across groups.

The data show that the supply of CVT falls behind the demand. Partly as a consequence, certain groups cannot improve their labour market position. Eventually, this threatens to slow down the Lisbon ambitions on participation and productivity. Some facts are the following (OECD, 2003).

- Men receive 17% more hours of training than women.
- The average training participation rate of workers aged 56 to 65 years (about 12 hours of CVT courses per year) is about three-quarters of that of prime-aged workers (36 to 45 years) (about 18 hours per year). Workers aged 26 to 35 years receive most hours (21 per year).
- Participation in low-skilled occupations (13%) is about one-third of the participation in high-skilled occupations (38%). Participation for workers with less than upper secondary education is less than one-half (16%) of those having a tertiary degree (35%).
- Employees with a high degree of supervisory responsibility are twice as likely to participate in training as are employees without any supervisory role and spend twice as much hours on training compared to non-supervisors.
- Immigrants participate about 5 percentage points lower than natives.
- Finally, workers in small firms receive less training than workers in large firms, who receive almost twice as many hours as workers in small firms.

We add that this pattern, based on bivariate correlations, is confirmed in multivariate analysis by OECD.

Firms fully pay for more than 70% of CVT courses. Most of the skills provided through training are not firm-specific and considered transferable. This inconsistency between theory – i.e. the optimal amount of investment in firm-specific human capital can be obtained only if costs and returns can be shared by the worker and the firm – and evidence suggests that labour markets are not perfectly competitive, because firms pay for a significant share of training courses which are in fact general or transferable. This market imperfection may lead to under-investment, because current employers cannot internalize the benefits from training that will accrue to future employers, due to the external effect of ‘poaching’ – i.e. a firm can free ride other firms’ investment in training by making better wage offers to trained employees. Empirical evidence shows that under-provision is likely to occur in all OECD countries, which, eventually, might reduce disproportionately the training opportunities for low-educated workers (Organisation for Economic Co-operation and Development, 2003: 248).

Beyond market failures training outcomes will depend on employers’ and employees’ incentives to invest in human capital. Under-investment and inequalities can be due to employers’ and employees’ behaviour. OECD data presents the following picture (2003: 249-256).

- Women and immigrants are less likely to be included in employer-paid training, possibly reflecting lower expected benefits for the employer.
- Older workers and the low-educated have a low demand for training. For older workers this may reflect lower benefits for the employer because the pay-back period is longer than the remaining number of years before retirement. Although lower educated workers have a lower demand for training than higher levels of educational attainment, this is not the case for supply of training by employers. But training supply is affected by workers’ basic competences, like literacy skills.

Employers seem to believe that learning increases, and therefore training costs decrease, with basic general skills.

- There are fewer employer-paid training opportunities for most part-time and temporary workers, while their demand is not lower than the demand of full-timers and those with permanent contracts. Plausible explanations can be statistical discrimination, tenure effects and higher probability of (voluntary) quitting.
- Supply for training by employers is higher for high-skilled workers and supervisors, than for low-skilled occupations or tasks, suggesting that employers tend to sort more able employees into better career and training opportunities simultaneously.
- Finally, training supply increases with firm size while training demand is not, which is consistent with the thought that larger internal labour markets offer greater opportunities to reap the benefits of training and have lower unit costs of training.

About a quarter of non-trained workers (23%) and almost one-third of trained workers (32%) would like to take more training. Reasons for workers to show a limited demand for training include lack of time, financial factors (especially for the low-skilled), family constraints (more often for women than men).

To foster training the OECD suggests co-financing arrangements. This could make training of older and low educated workers and workers in small firms, for example, (more) profitable for firms. One example we mention (OECD, 2004: 274-275) is the sharing of training costs between employers and individuals to be fostered by joint CVT agreements, to the extent that unions and work councils are in a better place to monitor training content and quality. Such joint CVT agreements are part of collective agreements and play an important role in ensuring an equitable distribution of training. The comparison here with covenants discussed beneath is an obvious one.

Our second question is concerned with labour market performance. The OECD *Employment Outlook* of 2004 makes the following observations (Organisation for Economic Co-operation and Development, 2004: 183-209):

- The importance of education and training for labour market performance is likely to have increased. Global demand shifts associated with the growth-enhancing role of human capital suggest a positive impact of education and training on aggregate employment.
- There is empirical evidence for links between training and aggregate employment, such as between employment performance and initial education and adult training. Such investments ‘make training pay’.
- At the individual level there is a strong association between training histories and employment outcomes. On average, a 10% increase in time spent on adult education or training is associated with an increase in the probability of being active and a fall in the probability of being unemployed.
- Employee training has a clear impact on wage growth in the case of young and highly educated employees, and on attaining and maintaining the competences required for sustainable employment prospects for older and low-educated employees.
- Despite no correlation was found between training and *unemployment* rates, no large crowding-out effects were observed. Crowding-out refers to the (partial) displacement of employees by individuals who have received (higher) education or training.

Training has a positive impact on labour market performance, and thus on employability. Trained workers feel more secure about their employment security. They have greater chances to find and keep a permanent job, so they are more voluntarily mobile but less frequently dismissed than non-trained workers. And when jobless the unemployment duration tends to be reduced due to training. Training increases the probability of re-employment after a job loss (European Commission, August 2004: esp. Chapter 4). Much is to win here, since more than half of the employees in the EU still have no access to training at the workplace nor participation in any training programme (Weiler, 2003).

The OECD (2004: 207-209) recommends investments in continued training by enabling workers to alternate between working and off-the-job training, by implementing a training levy/grant scheme, and make the value of skills transparent like other factor inputs and treat them as long-term assets. One other OECD recommendation is that it seems preferable to favour financing schemes with large leverage potential, which have greater scope to minimize deadweight as well as the costs for the public budget. These schemes include arrangements that allow mobilizing private resources from both employers and employees, with public co-financing, as well as policy measures that favour the establishment of training consortia pooling together resources from different enterprises. Such firm boundary-crossing cooperation (Korver & Oeij, 2003) is what we have in mind as we will recommend the use of covenants hereafter.

2.3 The labour market for target groups

Policies that have discouraged labour force participation, like early retirement and disability schemes, are ultimately unsustainable and not alleviating social exclusion. Labour market participation needs to be fostered, especially among groups that tend to be under-represented in employment (Organisation for Economic Co-operation and Development, 2003: 68-155). Important reservoirs of underutilized labour potential are population groups like women, older workers and less educated workers (see also European Commission, August 2004), and to a smaller extent, youths, lone parents, immigrants, and persons with disabilities. To aggregate the employment rate labour mobilisation is necessary. Estimates of potential labour supply from OECD indicate that policies to expand participation could plausibly increase employment by between 7 and 12% of the working-age population.

Among the groups mentioned, women, older and less skilled workers represent the largest pools of underutilized labour potential. Since there is a considerable overlap across the different population groups, some, if not many, individuals face multiple barriers to participating in the labour market. Some groups show a strong persistence in non-employment. For many persons in low-paid-jobs there is evidence of so-called 'low-pay-traps', urging for policies broadening access to job ladders for them. However, intentions for labour mobilisation may be hampered by excluding vulnerable groups due to rising skill requirements resulting from the application of new (IT-) technologies and forms of work organisation (cf. Oeij & Wiezer, 2002). Just because relatively little is known about how best to foster employment stability and upward career mobility 'activation' of jobless individuals probably will help longer-term opportunities for some and will reduce 'low-pay-traps' for some others.

Common to a large proportion of unemployed persons is lack of training or occupational skills. In order to return to employment it must 'pay to work' for them. The chal-

lenge here is how best to make work pay by modifying taxes, benefits and minimum wages to encourage labour supply, which must be in balance with the demand side: it needs to be affordable for employers. And then, work must also be accessible, e.g. for lone parents and disabled persons. To make work pay, affordable and accessible financial incentives and subsidies may provide possibilities. Another side of the coin is, if workers are to match firms' productivity requirements in the long run, throughout their working life, maintaining one's employability is unavoidable as is life-long training for skills and competencies. Again this emphasizes the need to promote training opportunities from a life-cycle perspective, that is, at every stage of a person's career, inside and outside the labour market (cf. OECD, 2003: 152).

2.4 Improving the quality of work

Another indicator for employability is the quality of jobs. Jobs that offer opportunities for learning may enhance the employees competences. Many subjects can be connected to this topic, such as (professional) autonomy (decision latitude), functional flexibility, participation in decision making, career opportunities, safety and health effects. The *Employment in Europe 2003* report distinguishes four types of jobs: dead-end jobs, low pay / productivity jobs, jobs of reasonable quality and jobs of good quality. It observes that three quarters of all jobs are of good or reasonable quality at EU level, leaving a considerable share of jobs of low quality (European Commission, September 2003: 127).

Looking at job quality, we first restrict ourselves to a few trends in the quality of jobs, namely job precariousness, work intensification and stress at work presented by OECD. Let us start by making a remark on quantitative developments. In the OECD area unemployment has risen by approximately 1 percentage point in 2003 since its recent low in 2000-2001. The employment to population ratio rose during 1991-2001. The average increase in the employment rate was 1.1 percentage point. However, some of the policies intended to expand employment may also tend to increase the segmentation of the labour market between 'good' career jobs, available to workers with skills in demand, and low paid, precarious jobs (e.g. short-term contracts, temporary jobs, casual employment), available to those on the margins of the labour market. On the other hand, looking from these developments from the participation perspective, one could say these jobs may represent valuable stepping stones to moving up the job ladder and, in any case, are better than no job at all.

The overall picture of trends in job quality is mixed. Support exists that employment growth resulted in wage inequality to have increased. Little support can be found that this growth was mainly due to a proliferation of low-paying jobs or that mobilizing marginal labour market groups resulted in lower productivity growth. A weak trade-off may exist between employment growth and productivity. Changes in working conditions also give a mixed picture. The number of serious accidents has decreased, and so has the number of fatal accidents at work in Europe between 1994 and 2001 (Weiler, 2003). Exposure to health and safety risks at work among European workers has fallen, but reports on working at very high speed or to tight deadlines is on the rise. Those working long hours or at an intense work pace also report more stress-related health problems and greater difficulty in reconciling work and family life. Further, perceptions of employment insecurity are rising (Organisation for Economic Co-operation and Development, 2003: 18-20). Let us take a closer look at some risks.

Although exposure to health and safety risks fell about 3 percentage points to 27% in 2000/1 exposure to physical hazards, such as intense noise, painful and tiring positions and handling heavy load, had risen. Working at very high speed and to tight deadlines rose to 56% and 60%, indicating a high work intensity. Increasing numbers of workers reported headaches, backaches, muscular pains in the neck and shoulders, overall fatigue and stress. Slightly lowered, 31% of workers reported performing repetitive movements on a continuous basis, whereas job autonomy is rather high: worker autonomy on order of tasks (64%), pace of work (70%), methods of work (70%). But there is a growing number of individuals who work very long hours (more than 45 hours per week) in some countries. Working conditions overall may seem to have improved slightly, but some hazards and stress-related illnesses are more common than a decade ago. The nature of tasks carried out present a rising work intensity and job autonomy (see also Oeij, Dhondt, & Wiezer, 2003; Weiler, 2003).

In sum, some progress has been achieved in generating more and better jobs, but many improvements remain to be realized (Organisation for Economic Co-operation and Development, 2003: 45-47, 55). Besides human suffering there is also an economic price with work-related health problems and accidents at work, costing the equivalent of 3-4% of European Gross National Product (European Commission, July 2002: 79).

Another indicator of job quality is flexibility, and how that effects security and quality in work (European Commission, September 2003: Chapter 4). Europe has a wealth of flexible working arrangements, like transitions between various labour market states, contractual flexibility and working time arrangements. At the same time, there is only little evidence that quality of work and employment stability improved over the second half of the nineties. No significant changes in subjective job satisfaction and objective job quality took place either. Despite all that, transition rates into unemployment and persistence in low quality employment remained high. The balance between flexibility and security, in combination with the need to improve the functioning of labour markets and quality of work seems delicate. Because relatively high degrees of labour market flexibility seem to be consistent with major shares of employees in insecure employment relationships. These are employees at higher risks of job loss, in low paid jobs, in low productivity employment, and without access to training or further career development opportunities, according to *Employment in Europe 2003* (European Commission, September 2003: 152).

The importance of job quality can be deduced from the fact that quality in work and subjective job satisfaction are found to be positively correlated with employment performance and labour market participation. Further, higher productivity goes hand in hand with higher job quality, subjective job satisfaction and training. Training in particular is shown to have a strong positive impact on labour productivity. This highlights the need for creating high quality jobs and promoting transitions into such jobs, which are also more stable. Improved upward 'quality dynamics' can increase not only quality but also quantity of employment. This once more stresses the risks of non access to training and insecure contract status (European Commission, July 2002: Chapter 3). In order to achieve the targets of the European Employment Strategy improvements are needed, including investment in human capital and promoting a culture of lifelong learning (Weiler, 2003). Another way to improve employability and productivity is by redesigning work organisations. Weiler (2003: 33) observes that, whereas the design and dissemination of innovative and sustainable forms of work organisation empirically proves to support labour productivity and quality of work –also a political goal in the Employment Guidelines 2003 – work organisation (beyond working time)

is *not* an issue in the recent EU policy documents (so is research on this issue, cf. Oeij & Wiezer, 2002: 73).

2.5 Conclusion

Based on different sources it is concluded that training in CVT and training in general are beneficial to the labour market position of employees, because training enhances their employability. From the presented information we find support for our statement that the market for training is not perfect. Individuals and groups already with the best labour market positions receive more training than others. Weaker groups that are an important labour potential are underutilized and remain underutilized if they are denied access to training opportunities. Employability will be further hampered by the absence of improving job quality. On the one hand there are still old and new risks for healthy work. On the other hand the lack of possibilities to combine work with non-working situations negatively effect both labour market positions of employees as participation and productivity rates for firms.

The Lisbon strategy addresses different ‘quantity-quality’ trade-offs (European Commission, October 2004: 116). One between employment growth and productivity growth, which is called into question because there are many pro-arguments that a substantial increase in the employment rate can coincide with higher productivity growth. Another trade-off discussed is between employment and social cohesion. The European Commission denies the trade-off by stating that the job is the best safeguard against social exclusion. A third and related trade-off is between social protection and economic efficiency. Economic and political choices may interfere with the need to improve working conditions, skill levels, and job quality for all labour market groups. Market regulation is needed to redesign labour market institutions in such a way as to improve employment performance without weakening social protection on the contrary, because markets are imperfect due to many societal factors (cf. Ministry of Economic Affairs [Reitsma et al], October 2004). One such institutional reform that could improve smooth labour market transitions is the instruments of covenants.

3 Covenants

3.1 Introduction

Covenants² are agreements between two or more parties³. They are becoming rather popular as a policy instrument in the Netherlands for two reasons. First, Dutch governance has obtained a policy model which replaces one-sided steering by participation of involved institutions (consensus model). This ‘withdrawal’ of public governance went hand in hand with the emergence of many public-private partnerships and forms of privatisation. Covenants stimulate self regulation. A second reason is that covenants do not demand judicial frameworks which facilitates their instalment. In fact, covenants often fill the gaps of inadequate laws. It makes policy more effective and less dependent from (European) legislation.

3.2 Function and potential of covenants

A covenant is an agreement between two or more parties. Covenants are no legal obligations, they are voluntary agreements. Most covenants are made between the government as a public organ and one or more private and public-private organs. The main features of covenants are the following:

- Despite the different interests participating parties may have, they share a common final goal.
- Parties cooperate in order to reach better results, through commonly agreed activities, that they cannot achieve if they act independently. They formulate superordinate goals, goals that have a compelling appeal for members of each party, but that neither party can achieve without participation of the other(s) (Sherif & Sherif, 1969: 256).
- Covenants are contradictory in several ways. Parties make binding agreements, although from a legal perspective the covenant is unretainable (‘vormvrij’). Covenants shape voluntary acts that are not noncommittal. On the other hand, parties are kept to the agreement to which they have morally committed themselves. Yet, formal sanctions are absent. Parties nevertheless have the opportunity to go to court in case of another party’s default. To prevent legal actions like these, covenants provide for agreed procedures how to act in such cases. Covenants are modes of self regulation which voluntarily limit the freedom of individual party’s actions.
- Covenants are alternatives for steering and management methods. Covenants either have a policy content nature, aiming at policy goal like reduction of environmental pollution, or procedural-institutional nature (Tweede Kamer der Staten-Generaal, 1995: 16). The last one offers a framework for cooperation by setting the conditions how parties will work together.

² This Section is derived from Korver & Oeij 2004b and mainly based on the practice of covenants in the Netherlands (Louwers, 2004; Ministerie van Sociale Zaken en Werkgelegenheid, April 2004; Tweede Kamer der Staten-Generaal, 1995).

³ A covenant can be defined as an undersigned written agreement, or a system of agreements, between one or more other parties or partners, at least meant to also effectuate governmental policy (Tweede Kamer der Staten-Generaal, 1995: 8).

Covenants have various advantages and disadvantages. Among the advantages we mention that the parties involved have substantial influence on the agreements that are being made. It is obvious this enhances their commitment. Their somewhat contradictory legal status makes covenants far more flexible than the issuing of rules. The threshold for parties to participate therefore is low and so is the ‘time to market’ of necessary activities to be undertaken without restraint. Covenants shape win-win options for those who participate. The major disadvantage is also its vague legal status. Partners can terminate their participation at any time and one-sidedly, without any serious sanctions. Besides, covenants are not always able to bind all of those who should be bound, because participation is voluntarily. Agreements and decisions made through covenants are not as secure as public decisions by the issuing of rules and laws.

Covenants are a growing phenomenon in the Netherlands. No such agreements were made before the seventies. In the eighties governments initiated this instrument. At the end of the eighties about 100 covenants were negotiated. Today there are several hundreds of them and almost every ministry has concluded one or more covenants with other parties. Examples of topics on which negotiations are taken into effect through covenants are environmental issues, energy saving, educational matters, health care, traffic and transport, housing, and working conditions and labour market issues. Other countries, like the U.S. and Japan also work with covenant-like agreements, but they differ in voluntariness and legal status. Anyhow, covenants get more attention nowadays.

3.3 Why covenants work

3.3.1 *Some reasons for success and failure*

There are a number of reasons that explain why covenants in general work or why they do not (Louwers, 2004). Factors for success are as follows:

- Participants must regard the goal of the covenant as a win-option.
- The covenant must be provided with the possibility to sanction those who do not fulfil their obligations.
- It must be absolutely clear who are the participants and the target group members.
- The covenant should be a careful balance of needs and wants, of rights and duties, in order to supply partners with the decision latitude and motivation to reach the goals that are set.
- Tough but honest negotiations at the beginning ensure parties to be open about their own interests, which eventually helps to clarify the desired common outcomes and helps to create shared goals, shared values and trust.
- Practical facilities like a good functioning project organisation, not managed by (one of) the covenant-parties but by an external, third party on behalf of the covenant partners. A third party is focused on the execution of the covenant, even when parties quarrel. A third party may even be helpful in resolving and mediating conflicts between parties. A third party can point out to parties their responsibilities and obligations.

For covenants to be successful a number of elements is of importance, namely formulating specific and measurable goals, commitment to achieve agreements from all covenant partners, and safeguarding actual implementation of agreements at the level of individual organisations (Tweede Kamer der Staten-Generaal, 1999: 16).

Factors for failure can be the following (Louwers, 2004):

- The goals in the covenant are not clearly defined.
- The goals are not being monitored during the project.
- Parties are insufficiently committed.
- Tasks and responsibilities for participants are not made explicit.
- Communication, interaction, knowledge sharing and exchange among partners are inadequate.

To this we add:

- The chances for free rider behaviour are substantial.
- Cooperation between partners is hindered by external factors.
- Rewards for individual parties to continue cooperation fail to materialize.
- Situational change.

3.3.2 *Social-psychological motivation to cooperate*

A main feature of successful covenants thus is a behavioural aspect, namely cooperation. How does cooperation come about? Basic ingredient of cooperation is common ground which can be achieved through the collective definition of goals: superordinate goals. Superordinate goals are shared goals that can be attained only if parties work together (Sherif & Sherif, 1969: 256; Smith & Mackie, 2000: 542). It is said that cooperation between parties works under certain conditions, which are the following (Smith & Mackie, 2000: 543):

- cooperation should be for a valued common goal which eliminates competition;
- cooperation should provide repeated opportunities to disconfirm out-group stereotypes (competition);
- cooperation should produce successful results;
- cooperation should take place between equals (in capability, power, etc.);
- cooperation should be supported and promoted by social norms (i.c. official institutional facilitation).

These social-psychological research based findings refer to individual or (small) group behaviour. Superordinate goals help to reduce or prevent negative effects from social dilemma's. A social dilemma is a form of interdependence in which the most rewarding action for each (individual or party) will, if chosen by all (individuals or parties), produce a negative outcome for the entire group (Smith & Mackie, 2000: 484-485, 566-570). Social dilemma's are related to the free rider issue (selfish behaviour). In many cases, being selfish is the best option in social dilemma situations. At least, for the short term. But in some situations individuals tend to act for the good of the group rather than for their self interest, and thus solve social dilemma's. This is the case when individuals identify with the group as an important aspect of the individual's social identity. Group belonging then, motivated by social identification, promotes the desire to benefit the group as a whole regardless of outcomes for the self. Research shows that group cohesiveness, which is related to social identification, has a positive effect on cooperation, on social control, and on attracting and keeping valued members. Socials identification and group cohesiveness can be encouraged by several factors (Smith & Mackie, 2000: 571-572):

- communication among group members (e.g. about how to solve a problem);
- equality of opportunities and outcomes among group members;
- accessibility of group norms directs behaviour;
- linking individual efforts to the group good through feedback.

Group identification then is a crucial factor for boundary-crossing cooperation and cooperation is stimulated by superordinate goalsetting. These are precisely the ingredients that can help make covenants successful: a shared goal only to be achieved by cooperation motivated by a sense of belonging.

4 Covenants and employability

4.1 Market failures and the use for covenants

The recognition of shared goals may lead to the discovery of common problems, and the latter may lead to the identification of bottlenecks that stand in the way of solving the problem. In fact, it is likely that problems and bottlenecks will emerge not just at the start of the trajectory towards achieving the shared goal. The tackling of one bottleneck probably will lead to the discovery of the next one and so on. If, for example, an enhanced level of employability is a shared goal, problems are sure to arise concerning the required scale needed for internalizing the costs and benefits of more investment in training. Given the scale, the next problem may be the level of investment as such, followed by, for example finding the best instruments to develop adequate training methods, the question of the division of training between on-the-job and off-the-job, the modes of implementing new training in work organizations, the methods of certification and so on and so forth.

Each of these problems may lead to bottlenecks and therefore to a ‘hold up’, in the sense of either a postponement of action and/or to the one-sided appropriation of the results of the action (‘robbery’).⁴ In the market for training such bottlenecks are quite likely to emerge as we argued above, and they are all the more likely to emerge as the proportion of purely firm-specific skills is diminishing and the proportion of transferable and even general skills is on the rise. On the other hand, employability is depending on the strengthening of transferable and general skills and insofar as the enhancement of employability is a shared goal the problems of how to get to there and how to identify and tackle the inevitable bottlenecks are sure to become urgent.

The problem of ‘hold up’ is tantamount to market failure (cf. Ministry of Economic Affairs [Reitsma et al], October 2004). To a major extent, such failure is due to information problems and information impactedness. These problems loom large in the market for training. What is effective, under what conditions, within what time frame and for whom are quite often unknowns at the time decisions on training are to be taken. Also, parties to the training effort (employers, employees, the training professionals) may have different information sources of different quality; sources which they are not willing to share. Although, therefore, the need for more training may be felt and voiced by many, the difficulties of actually instituting training as a going concern in all companies and for all workers have often proven prohibitive. The history of decades of pleas for the institutionalization of ‘life long learning’ goes to show it.⁵

These drawbacks, of course, have not gone unnoticed. Since the eighties of the last century the instrument of the so-called ‘specific collective bargaining agreement’ has gained some popularity in the Netherlands. These agreements are mainly focused on industry-wide problems of, to name the two most conspicuous ones, early retirement schemes and vocational training. Industry funds for training en development were developed - and are by now part of the regular results of collective bargaining - and these have contributed to more training overall. However, the record in terms of training for

⁴ As in the classic study of Ivar Berg (1973) on education and jobs, subtitled ‘The great training robbery’.

⁵ See van Lieshout and van Liempt 2001: 101.

transferable and general skills is not very strong, and so is the record for improving the training options and opportunities for the weaker categories in the labour market.⁶

The core of collective bargaining concerns the balance of effort and pay. Its main function is to keep wage costs aloof from cut-throat competition between companies and at least in the Netherlands this goal has been reasonably well achieved. It is based on prognoses of relatively short-term developments and experiences and results in relatively straightforward distribution rules, supplemented by a growing array of more ad hoc ('if-then') distribution rules. Also, collective bargaining impacts on the national economy as a whole and the interests of sectoral bargaining and the national economy are balanced, in principle, by the mechanism of the mandatory extension of collective bargaining agreements to include the non-signatories in a sector and the government (by granting tax favours for example).

Collective bargaining has a legal history of well-nigh a full century in the Netherlands. During that period it not just extended its scale but its scope as well. Issues of working conditions, labour market initiatives, and training have been integrated, yet with limited success. In our view, the real question is not whether these issues are compatible with collective bargaining. The real question is not 'whether' but 'how' and 'when'. In more general terms: covenants are needed where issues are at stake in which it is not, or not yet, clear what exactly is required of the participants to achieve commonly set and shared values and targets. And since this unknown it is quite premature to invoke the regular processes of bargaining, and thus of deciding on the distribution of the eventual net advantages of the joint effort. In fact, what net advantages are, how they can be achieved, and how they are then to be distributed can only be clarified along the way. This defies the regular bargaining situation and calls for 'learning by monitoring', of which the covenant is a major example.

Where the market does not perform adequately two mutually non-exclusive consequences may result. The first consists in negative external effects: the shifting of costs and risks from the micro-level of organizations to the level of sectors or of society at large. The second consists in the underutilization of capacities: the frontier of opportunities and capabilities is not reached. Both may be tackled by covenants: the first is exemplified by covenants on working conditions, sickness absence and disability, the second may be tackled by the covenants on employability. The former have a relatively successful history in the Netherlands, built up during somewhat more than a decade; the latter have yet to come about.

Covenants on working conditions are mainly a development since the previous decade. During the eighties and the nineties the Dutch government succeeded in pushing back the burden of social risks and costs (sickness leave and disability) to the industry and organizational level (it transformed social risks into organizational risks). In itself, however, this did not achieve very much in terms of improved working conditions, and reduced sickness absence and disability. Covenants were construed to indeed effectively reduce absence and disability. And they worked. Also, the instrument of the covenant itself was adjusted and improved along the way.⁷

⁶ See also Oeij, Korver & Gründemann 2004: 163-165.

⁷ Two phases have been discerned: the first phase, characteristic of the major part of the nineties and the 'new style' covenant since 1998/99. The difference is mainly in a better translation of targets into performance standards and time-tables. See: Popma 1999: 178-182, and Popma 2003:96-98.

In some covenants aspects of employability have been included, mainly in the shape of demanding attention for the career perspectives of employees in dead-end jobs. The goals to achieve however, and the targets and standards of performance to adhere to, have so far not been specified. Much remains to be done, but the fact that for employability the instrument of the covenant has been taken into consideration is a token of hope. On that token we want to build.

4.2 The promise of the covenant: learning by monitoring

Learning, at least related to employability, means acquiring the knowledge to make and do the things that (labour) markets value (and therewith *un*learning the things not so valued). Monitoring means the assessment of the partners-in-learning whether the gains from learning are distributed acceptably: ‘The dilemma of (...) development is that learning undermines the stability of relations normally required for monitoring’.⁸ It is easy to see that combining learning with monitoring may lead to blockades. For, learning leads to winners and losers. Learning may - and probably will - disrupt existing relations of distribution. On a micro-scale new processes will lead to an upgrading of some, and a downgrading of other positions, functions, and career options. Moreover, in order to guarantee the progress of learning one may have to enlist the endeavours of both, winners as well as losers. And again, it is rather likely that we do not know *beforehand* where gains are going to accrue and losses must be incurred. The same holds for the macro level. On a macro-scale, the present prediction is that the advancing knowledge economy will exacerbate the inequality of incomes, therewith further strengthening the trend of the past two decades. Yet, if uncorrected, this development might very well end in jeopardizing the societal attempt to enhance rates of participation and, through participation, of social inclusion.

If uncorrected, therefore, decision traps are likely to emerge. Where outcomes are uncertain and where the odds are that some will lose and others will win, with the distribution of the odds unknown, conservatism is more likely than innovation. Conservatism, here, means that parties revert to their already established identities (‘I am a manager’, ‘I am a craft worker’ and so on) and to the interests associated with the identities, including social hierarchies and rank, and ideas of equity. When monitoring is steered by already established identities and vested interests, learning is sure to be hampered, if not immobilized, for learning entails a redefinition of both identity and interest.⁹

Learning by monitoring captures the essence of the institutionalization of training efforts with uncertain and unknown outcomes. In that, learning by monitoring resembles the debate on development planning, and in particular on the pros and cons of balanced versus unbalanced growth. In the (originally dominating) view of balanced growth, it was argued, bottlenecks are predictable and do not, if identified and placed in a proper perspective of resolving them, have to lead to decision traps and deadlocks. Indeed, such was the mood of post second world war development planning: given the adequate pinpointing of bottlenecks a strategy of simultaneous investments could remove

⁸ C.F. Sabel, 1994: 231.

⁹ *ibid.*: 267-268, 272-273. See also Hirschman’s discussion on ‘trait-taking’ (with identities and interests given) and ‘trait-making’ (with identities and interests changing in the course of development). The latter is within the realm of learning by monitoring, the former is not. See Hirschman 1967: 128-139; Hirschman 1995: 130-131. Also, Toye 1995: 28.

them and guarantee planned growth. Soon, however, it turned out that the world was not that predictable after all. Development planning arose often out of considerations of underemployment and in order to avoid the danger of getting stuck in underemployment, a series of simultaneous investments in a variety of activities was deemed the most promising way out. The task, accordingly, was to find the optimal combinations for given resources and factors of production.¹⁰ Development projects under this banner thus typically assumed that economies moved from one point of (underemployment) equilibrium to the next point of equilibrium with factors better utilized, the economy growing, and so on.

What is conspicuously lacking in the balanced growth perspective is any serious consideration of *time*.¹¹ Going from one equilibrium to the next presupposes that sequential moves and effects in between the equilibria do not really matter. They may of course lead to delays and they may complicate the project, but they cannot get the project off-track, defined as it is by its points of equilibrium. Yet, quite often the strategy of balanced growth failed. One simple reason was, of course, that the strategy assumed that all relevant actors could identify the same roads, trajectories, and stations, and, also, that the actors could and would identify *with* them. Moreover, *how* an economy could move from one state of equilibrium to the next was left remarkably unspecified. Usually, the path taken was just to embark on a journey towards a completely new ('modern') economy, superimposed on an already existing but stagnant 'old' economy. Or rather, the latter was taken as the reservoir of an 'unlimited supply of labor'¹², and then to be left, for all the rest, to its own devices. The product, dual and segmented economies, was later to become the target of radical critiques in the vein of André Gunder Frank's 'development of underdevelopment' –thesis and a vast literature on dependencia.¹³

In Hirschman's concept of development it was not simultaneity but *sequence* which assumed centre stage. In other words, instead of a master plan pre-empting all further decisions, the emphasis was shifted to *induced* decision-making, in which one action leads to the next problem (or 'bottleneck'), and where learning-by-doing is prominent and is continuously fed back into the decisions and planning of new moves and actions.¹⁴ Unbalanced growth, now, is the same as the maximization of such induced

¹⁰ Hirschman 1958: 5; Hirschman 1986: 13, 56.

¹¹ Much has changed in development planning and its theory since the 1940's and 1950's. But there are continuities as well. Four continuities are, in the present context, of special importance. (1) the emphasis on 'mono-economics' has remained strong, be it that its focus is on micro-economics and no longer on macro-economics (in line with the demise of Keynesian economics, especially since the eighties of last century); (2) blue-prints still define the field; (3) the emphasis on equilibria is unabashed; (4) sequencing and time are still residual at best. See Toye, o.c.: 4-8, 34-35, 71.

¹² Lewis, 1955.

¹³ Hirschman 1958: 50-61; Hirschman 1986: 23, 70-71. Today, the distinction modern/old reads formal/informal *and* tradable/non-tradable (Toye, op. cit.: 44-45). The key issue here is the degree of overlap between formal and tradable on the one, informal and non-tradable on the other hand. For obvious reasons, this issue is of great relevance for developed economies as well.

¹⁴ A good example is the Japanese company strategy of 'no supplies' and the sequence of events (just-in-time, single-minute exchange of dies, and so on) in its wake. See Sabel, o.c., and Sabel 1995. See also Hirschman 1995: 129, where the example of Japan ('just-in-time') is explicitly mentioned. Bovens (1990: 158-159) uses in a related vein the image of

decision making.¹⁵ Induced decision making, in its turn, refers to learning from bottlenecks, with bottlenecks being shorthand for backward and forward *linkages* of a variety of sorts. And, to close the circle, a linkage is defined as a ‘characteristic, more or less compelling sequence of investment decisions occurring in the course of industrialization and, more generally, of economic development’.¹⁶

Instead of given resources and optimal allocation, induced decision making focuses on ‘calling forth and enlisting (...) resources that are hidden, scattered, or badly utilized’¹⁷ and on the *process* of combining them.¹⁸ Tapping such resources depends on the presence or construction of ‘pressure mechanisms’ or ‘pacing devices’.¹⁹ Resources, then, are not the final constraint. Nor is optimal allocation known beforehand. What is optimal and which combinations work is a matter of finding out in a process of ‘muddling through’.²⁰ Instead of planning we get exploring, and the need for an adequate pacing device. Learning by monitoring is exactly such a device and the covenant is the instrumental shape it can assume.²¹

Yet, the covenant is not unconditional. For, one important aspect in induced decision making, and learning by monitoring, is that the economic actors involved are in, and *know* they are in, ‘the kind of high-risk situation where public action can matter most’.²² This, of course, defines the *scope* of the eventual covenant. The nature of these risks, however, is of decisive importance for the issues at hand. For, risks can be of two kinds, depending on the situation they are to characterize. Many labour risks refer to *danger*: the danger of involuntary unemployment, the danger of work accidents, and dangers for health and disability. As a matter of fact, the covenants on working conditions, absence reduction and reduction of disability, are bent on solving these risks and for fairly distributing the associated responsibilities, costs and savings. Essential as coverage for these risks is, these are not the risks we want to emphasize in the present context. We do not emphasize risks we want to avoid, i.e. risks we *run* (risks we would not normally *choose*). In the context of transitional labour markets one needs to discuss risks that we²³ *take*, for instance when moving from one job to the

‘backward policing’. That is, the person accepting some work in progress from someone before her must check the quality of that piece of work, because once accepted she is responsible for it. In checking, however, she may detect errors made before (‘backwards’ that is) she starts working on it. These errors, therefore, are identified immediately and will lead to corrective measures, also and even in particular when the errors reflect a true ‘bottleneck’. Hirschman’s ‘preference’ for backward linkages can readily be translated as ‘backward policing’.

¹⁵ Hirschman 1995: 86. Hirschman 1958: 24.

¹⁶ Hirschman 1986: 56.

¹⁷ Hirschman 1958: 5.

¹⁸ *ibid.*: 25.

¹⁹ *ibid.*: 26.

²⁰ Hirschman 1971: 63-84; Lindblom 1959: 79-88.

²¹ In developing the concept of ‘learning by monitoring’ Sabel explicitly refers to Hirschman’s idea of unbalanced growth. Sabel 1994: 265. We prefer the concept of learning by monitoring to the concept of ‘policy learning’ as developed by Visser and Hemerijck, 1998, if only because it implies not just that policy may ‘learn’ but also that finding the adequate policy as such is a product of a process of learning by monitoring.

²² Sabel 1995: 14.

²³ We describe these risks from the vantage point of the employee. It is not difficult, however, to describe them as well from the vantage point of the employer or the government.

next, from one employer to the next, from one combination of activities in work, care and education to the next and so forth. Here the contrast of risk is not danger but *trust*. We do not want to insure only for accidents, ill-health, unavoidable old age or other undesired mishaps, we want to insure for moves we want to make during our career and, indeed, in our *chosen* life course trajectories. And as we make such moves in the expectation that they conform to the general goals of more mobility, more transitions and more training we want to be able to cash in on our insurance when these expectations are disappointed.²⁴ The *opportunities* for covenants in the framework of transitional labour markets are in the transformation of risks: from danger to trust. For it is this transformation that needs to be made in order to tackle the opportunities of mobility, transitions, and training, and the problems (bottlenecks, linkages) these give rise to. The problems, by this token, are definitely not the equivalent of ‘threats’. Of course, covenants may fail, for example because the problems have been underestimated. Indeed, the chances thereof must not be slighted, in particular where the transformation we advocate will have to cover and discover a lot of new land. At the same time, the chances are *also* that the parties may underestimate their ability to overcome these problems if and when they appear. Learning by monitoring is learning by doing: by doing we meet problems and we can test our abilities to overcome them. The two underestimations combined lead to what Hirschman calls the principle of the ‘hiding hand’.²⁵ But the only way of finding out whether we underestimated the magnitude of the problem more than our ability to solve it is by *tackling* the problem.²⁶

4.3 The premise of the covenant: trust

Trust is a two-way street. One needs to trust one’s partner and the partner has to trust us. In bargaining, trust may be had by binding oneself. Trust is a device for coping with the freedom of others, and for others to cope with our freedom. If our partner believes our ‘credible commitment’ then s/he may accept own commitments also. Reputation (and the damage it may suffer) is an instance of commitments, as is a collateral, a confession, and a promise. A contractual commitment, of course, is also possible but private contracts have the disadvantage that keeping them depends on a cost/benefit calculation. In other words, in order for contracts to be trusted they depend in their turn on one of the other kinds of commitment.²⁷ In that respect, public contracts, or mixes of private/public contracts (like in $\frac{3}{4}$ public law, $\frac{1}{2}$ public law and so on) will perform better. On the other hand and for the very same reason it will prove harder to muster the commitment of parties to enter into such contracts.

What we lack is a theory of the genesis of trust.²⁸ In the learning-by-monitoring example trust is sort of a ‘by-product’ of cooperating, but that begs the question of the

²⁴ On risk, danger, and trust, see Luhmann 1988. Applying the risk-trust combination to social security in the context of transitional labour markets see Korver and Oeij 2004a, and Korver 2003, where we attempt to bring together the threads on respectively transitional labour markets (Schmid 2001) and modern forms of social insurance (modelled after the path-breaking work of Dworkin 2000).

²⁵ Hirschman 1967: 9-34. The principle is a play on words as it refers to, and invalidates at the same time, both the ‘invisible hand’ of the market and the ‘visible hand’ of the corporate hierarchy.

²⁶ As in the Nike ad: just do it!

²⁷ Schelling 1963: 22-28; Frank 1988.

²⁸ Gambetta 1988: 231.

original trust rather than answering it.²⁹ On the other hand, we may rephrase the quest after genesis as a question about the conditions for trust in cooperating. The question then becomes: under what conditions do we need trust in order to achieve and maintain cooperation? Trusting someone means ‘believing that when offered the chance he or she is not likely to behave in a way that is damaging to us, and trust will be typically relevant when at least one party is free to disappoint the other, free enough to avoid a risky relationship, and constrained enough to consider that relationship an attractive option.’³⁰ That is, trust presupposes exit (avoiding a risky relationship is viable only if functional equivalents for that relationship are available), and it requires for its growth and maintenance both voice (demanding safeguards - monitoring devices for example - against disappointment, otherwise the relationship will not be upheld), and loyalty (combining attractions and constraints). Exit requires competing possibilities, voice requires modes of communication, and loyalty requires binding oneself. In the case of allowing for no latitude in performance standards, Japanese style, exit reads the possibility of shifting the supplier relationship, voice reads quality circles, and loyalty reads long-term employment and supplier relationships.³¹ It is from examples such as these that Hirschman and Sabel derived their optimism about trust being generated along the way. Moreover, trust is like knowledge. It grows when used, and depletes when unused.

The covenants on working conditions match the requirements of trusting cooperation. The agreements are not legally binding, the voice of the parties concerned is enlisted, and the performance standards and supporting timetables are included. However, in the scarce covenants on labour market issues things have not advanced that far, and in the case of employability the proof of the pudding can only be given by the eating of it. Again, the labour market covenants so far are not legally binding, but compared to the covenants on working conditions the voice of the parties enlisted is much more restricted, and targets and standards are at best intentions rather than criteria. Nevertheless, in one recent evaluation of some of these covenants (on improving the opportunities for ethnic minorities in the labour market) gains are reported in (1) improved relationships between the government and the participating companies; (2) improved cooperation between the enlisted parties; (3) in organizations learning from one another; (4) and in the emergence of networks of organizations.³²

This improved record in cooperation may in time lead to the production of enough trust for clearer goals and targets, for stronger performance standards and the enlistment of more partners, needed to effect the performance goals (trade unions, for one, works councils and shop representatives, for another). However, our case, concerning the build-up of transitional labour markets, is more complex than the examples so far. Exacting performance standards (for example in the shape of benchmarks) do not as

²⁹ The word ‘by-product’ is actually suggested by Elster and Moene, 1989: 4-5. Axelrod’s (1984) idea about the evolution of cooperation is also in this train of thought. See also Gambetta, o.c.

³⁰ Gambetta, *ibid.*: 219.

³¹ Including, to be sure, the action in ‘shifting involvements’: going from private to public action or the other way around. See Hirschman 1982.

³² Ministry of Social Affairs and Employment, April 24, 2003 (ABG/DB/03/27296): 2, 5. TNO Work and Employment is also active with ‘learning networks’. Its results are promising; once the participating companies have identified a common interest (for example: continuing deployment of the elderly worker) they learn from one another’s bottlenecks and they learn how to cope with them.

yet exist. What cooperation is needed, with what partners, in which timeframe, and for what performances is a series of tangled and simultaneous questions. Learning by doing, and developing accurate and acceptable standards along the way, is the only way to proceed here, in particular if, as we have hypothesized, the development of standards will also produce the trust needed to continue cooperating. We emphasize at this point that cooperation does not and should not exclude competition. The possibility of not-joining is important for covenants to work, as is the possibility of opting-out after joining. Competition, so to speak, is its own method of learning and monitoring and it may contribute to better standards.³³ For example, covenants targeted at older workers are more than welcome.³⁴ But they should not exclude or discourage other initiatives and, thus, opportunities to learn. As it stands, the policies of Microsoft for an active and productive deployment of older workers may well lead to new standards that can be rejected, adopted, or improved by companies, alone or together, looking for viable policies for older workers as well.³⁵

Critical is some common ground, as has already been stipulated in Section 3 by 'superordinate goal setting'. We believe that participation in paid employment does constitute such a common ground. To work that ground, however, governments, employers, employees and citizens face new conditions. We name three: transitions, employability, and mobility. And we name the bottlenecks (the present employment relationship, the hold-up problem, organizational discretion in recruitment and selection, Korver & Oeij, 2004b) that need to be mastered in order for the conditions to become opportunities. None of the opportunities and bottlenecks can be mobilized if the parties have to go at them in isolation. In such a situation the 'task of convening and moderating' falls to the public authorities 'by default'.³⁶ This is not because the government has the better knowledge. It is because it is the task of government to offer an organizational form for taking the issue further, if the social partners (trade unions, SMEs and possibly also the larger companies) and the citizens recognize the utility of cooperation but do not have the muscle bring it about, and if the cooperation concerns issues of general interest or 'common ground'. At the same time, there are limits to the public authorities as well.³⁷ Government today is governance rather than directorship. And governmental interventions are reflexive, rather than prescriptive. Again, the format of the covenant expresses this quite clearly, for it is based on voluntary consent and participation on the one, on equal terms on the other hand. It is a form of democracy, in which democracy is the equivalent of 'reflexive authority': the exercise of authority by those who are subject to it. The covenant concerns the partners, not, however those who did not sign on or who decline further membership under the covenant.³⁸ It is not a democracy of all, but only of all those who will. And provided access is not denied to those not or not yet participating, this formula has the advantage of both flexibility and adaptability.

There is one strong assumption involved though. For however needed and useful exits are, exits are not to be used carelessly. The minimal requirement is that exits are communicated in writing and with the reasons for exit stated (as, in fact, they must be un-

³³ See Baecker, 1988.

³⁴ Despite the writing on the wall: the recently disbanded Dutch 'taskforce' on the elderly and employment did not even propose a covenant.

³⁵ On Microsoft see Mosner et al 2003, and Microsoft Press© 2002. See also De Vos 2004.

³⁶ Sabel 1995: 16.

³⁷ Selznick 1992: 477, 505.

³⁸ McMahan 1994: 12-13.

der the known Dutch covenants). Since all reasons are valid, at least in the Dutch case, it is clear that the value of having exits is not underrated. This puts a huge premium on the quality of the covenant itself: it will have to prove its worth as it proceeds. A shared common ground, therefore, is a necessary condition for a covenant, but it is not in itself also an adequate condition. The latter will have to be generated by the covenant in process. The chances for the process depend on the parties partaking in it. Since the covenant implies many unknowns the covenant can succeed only if the parties do not stick to their pre-established identities and interests. If something new has to be produced, it stands to reason that identities are of limited value only. They are the base-line, like socialization is the baseline for the take-off of education.³⁹ But the success of learning and of educating is in a changed identity at the end of the road. Learning-by-monitoring is akin to learning-to-learn. It is learning by conquering bottlenecks and guided by commonly developed goals, targets, timetables and standards of achievement. The premise of the covenant is that in order to ban the dangers of hold-up, no one has the final say, and that all are willing to learn.

³⁹ Luhmann 2002.

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