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Europe and the economic crisis: forms of labour market adjustment and varieties of capitalism

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Abstract

The economic crisis that beset Europe in 2007 had a considerable impact on employment. Since 2008, unemployment has increased throughout Europe, but adjustment mechanisms affecting the labour market have varied from one country to another. By examining six representative European Union countries from the EU15, this article examines three types of adjustment involving segmentation, working hours and unemployment/underemployment. These adjustment systems, which originate from business strategy and which are partly supported by public policy measures, reflect the persistence of three varieties of capitalism in Europe.

Keywords

crisis, labour markets, varieties of capitalism

Introduction

The crisis in the American subprime mortgage market, which first became apparent over the summer of 2007, triggered a financial and economic storm that virtually nobody had anticipated. This crisis has revealed the fragility of a growth model based on the financialization of the economy and household indebtedness. Disequilibria in financial markets very quickly began to affect the real economy, leading to a historic decline in GDP of 6 percentage points in the USA during 2008 and 2009 and of almost 4 percentage points across the EU-15.[1] One of the main consequences has been a weakening of labour markets. In 2007, the unemployment rate of 5.6 per cent in OECD countries was the lowest for 25 years. By June 2009 it had leapt rapidly to 8.3 per cent, setting a new record. With an increase of almost 15 million in the number of people unemployed, the unemployment rate had not reached such levels since the end of the Second World War (OECD,

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2009). What exactly are the lessons to be drawn from the recession of 2008–9, particularly with regard to the evolution of national employment systems in Europe? This will be the focus of the present article.

A number of theoretical approaches may be used to provide answers. The varieties of capitalism (VoC) approach is particularly relevant because of its capacity to spotlight diversity across major economies. The work by Hall and Soskice (2001) on the notions of 'complementarities' and 'system coordination' reveals how firms resolve coordination problems in five spheres of activity: industrial relations, vocational training and education, corporate governance, inter-firm relations and cooperation between employees. This approach shows that 'in any national economy, firms will gravitate toward the mode of coordination for which there is institutional support' (Hall and Soskice, 2001: 9). Hall and Soskice suggest that a distinction has to be made between at least two models of political economy. They contrast an ideal type of liberal market economy (LME) with an ideal type of coordinated market economy (CME). The difference between these two models lies primarily in the mode of coordination employers favour: the market in the first case, cooperation in the second. In Europe, the UK is commonly associated with the first of these theoretical models, Germany with the second.

Despite the abundant literature available over recent years on varieties of capitalism, two major questions have remained unanswered. How many models should be discerned within capitalist economic spaces? As yet no agreement has been reached between the varying authors who have debated the presence of two to five models, if not more (among others: Amable, 2003; Coates, 2000; Hall and Soskice, 2001; Schmidt, 2003). Second question: to what extent are the ideal types from the VoC approach relevant for economies that have completely metamorphosed during the last two decades (Blyth, 2003; Hancké et al., 2007; Howell, 2002)? The 2008–9 crisis provides the perfect stage to revisit these questions and to shed new light on a totally unfamiliar type of economic situation.

By taking as starting point the main observations that can be made vis-a-vis the impact of the crisis on employment in the EU-15, the article will highlight the existence of three different forms of adjustment that influenced labour markets in 2008 and 2009. The findings from the analysis will help construct the answers to the two questions above. The methodological approach used here draws for the most part on statistical data produced by Eurostat (Labour Force Survey) and the OECD. Although these data are not without multiple biases, they do enable us to compare a number of countries by means of basic indicators. The data are further discussed with the aid of national statistical data sources and economic reports related to government action and industrial relations.

The effects of the crisis on European labour markets

The cause of the 2008–9 crisis, which has been comparable in extent and impact to that of 1929, is largely attributable to a dependency on financial markets and the failure to fully regulate these. In contrast to the Fordist model that prevailed in the three decades of growth that followed the Second World War, household consumption has become significantly less dependent on real wages and much more dependent on financial wealth and with it, access to credit (Boyer, 2009). Businesses, moreover, are increasingly giving in to shareholders' demands for short-term profitability. Movement in share prices has

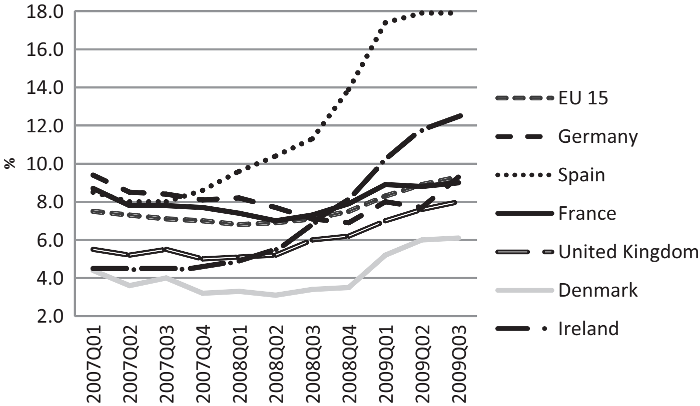

Figure 1. Unemployment rates in the EU-15 and in six EU-15 countries
Source: Eurostat

replaced turnover as the indicator of management performance. The fall in property prices in the USA in 2006, followed by the collapse in 2007 of speculative funds invested in securities backed by subprime mortgage loans, marked the beginning of the crisis and the growing concerns about an economic growth model driven by finance.

While no European country escaped the recession, its impact varied from country to country. The impacts were fairly wide ranging – growth in GDP between 2008 and 2009 saw Finland at -8.2 per cent and Greece at -2 per cent. The degree of economic internationalization is not unconnected with these variations in performance. Countries like Germany, Sweden, Denmark and Ireland, whose economies are strongly dependent on the export of industrial goods, experienced a significant drop in GDP.

The first consequences of the crisis can be seen in unemployment figures (Figure 1). These began to rise in 2008, firstly in Spain, then in Ireland, the UK, and a little later in the other European Union countries. The rise was sometimes very sudden, as in Spain, where in barely two years unemployment increased by almost 10 percentage points. Events took a similar course in Ireland. Employment levels also decreased significantly from 2008 onwards, once again to varying degrees depending on the country in question.[2]

The difficulty of providing a simple interpretation of the effects of the crisis on European Union employment systems is further underlined by the fact that there is no mechanical relationship between economic performance and the manner in which labour markets reacted to the crisis. The impact of a 1 percentage point decline in GDP on evolving levels of employment and unemployment is highly variable. The reaction of the labour markets in some countries to the economic depression was a rise in the unemployment rate, while in others, such as those of the Netherlands or Austria, the effects were quickly tempered. All governments initially reacted to the crisis by providing financial support for their banking systems. Many of them also put in place economic policy measures intended to bolster demand. Thus Germany, Austria, the UK and even Sweden reduced taxes in order to boost consumption. In several cases, car scrappage schemes were introduced in order to assist the motor vehicle industry. Denmark, Spain, France and Portugal increased public expenditure, thereby benefitting infrastructure projects and housing in particular. According to Watt (2009), however, the reflationary measures taken were not sufficient to meet the challenges governments faced. Examination of a sample of a dozen European Union countries shows that in 2009 and 2010, 1.8 per cent of GDP on average was devoted to these reflationary measures, compared with 5.5 per cent in the USA.

Although governments targeted labour markets with voluntarist measures, these markets did not all react in the same way and in particular they did not react to the same extent. Calculating the speed of employment adjustment provides strong evidence of this. The synthetic indicator is calculated as follows (Boyer and Mistral, 1978): Speed = $(Eo_{Q32009} - Eo_{Q32008})/(Et_{Q32009} - Eo_{Q32008})$, where Eo is the volume of employment observed (in the third quarters of 2008 and 2009) and Et is the theoretical volume of employment. Et is obtained by increasing the volume of employment in Q3 2008 by a proportion equivalent to the difference between the variation in GDP and the variation in labour productivity gains.[3] For this latter variable the average of the gains recorded by each country between 2000 and 2008 has been used. The calculations show that one country (Spain) overreacted to the crisis by adapting its volume of employment to the new economic situation more than was necessary. France is one of the countries whose labour market has best withstood the crisis. Its speed of employment adjustment is 0.21, which means that just one fifth of the theoretical employment adjustment actually took place. The figure for the UK is 0.23, for Germany 0.29, for Sweden 0.33, for Italy 0.35, for Denmark 0.44, for Ireland 0.95 and for Spain 1.3.

The speed of employment adjustment scores gives some superficial insight into the degree of resilience or flexibility of a national economy. As the score increases (i.e. moves away from zero) a national economy become less resilient and more flexible. The hierarchy shakes up the received ideas about European employment flexibility. A few years ago various observers were convinced that although some obstacles remained, Europe had reached a new historical phase and had eliminated a number of disparities between the various models of capitalism (Hansmann and Kraakman, 2000). The crisis has revealed that this is by no means the case. What is more, certain observations call into question established notions. One cannot fail to be surprised by a comparison of the speeds of employment adjustment (Figure 2). When this indicator is applied to a country such as the UK, which is often referred to as a flexible economy par excellence, it transpires that a country such as Germany is actually more flexible. Similarly, Italy has been more resilient to crisis in terms of employment than Denmark, a model country in which some commentators believed they had found the miracle solution linking flexibility and security. In order to attempt to gain a better understanding of the meaning of the changes highlighted by the crisis, it is necessary to go beyond the statistical observations from the period 2008–9 and see countries from a dynamic perspective.

Labour markets during the crisis: forms of adjustment used

To be able to continue with the above line of reasoning, a baseline is needed. Following earlier studies (OECD, 2004), Figure 2 shows that there is no correlation between the level of employment protection (as measured by the OECD's indicator for 2007) and the

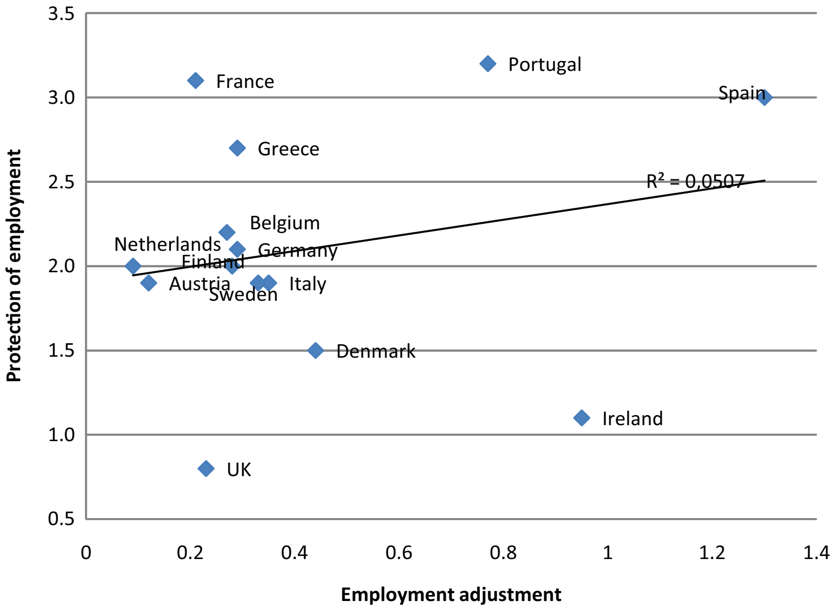

Figure 2. Employment protection and speed of employment adjustment (2008–9)
Source: OECD, Eurostat, own calculations

labour market's capacity to adjust more or less rapidly to changes in economic circumstances. The findings reject the liberal capitalist notion linking flexibility in the labour market to a low unemployment rate, because regulations, for example those involving the costliness of making a person redundant, act as a barrier to job mobility. However, the results are also an invitation to scrutinize the thinking behind VoC. Firm-centred VoC approaches function reasonably well when the theory of complementarity is used to explain institutional stability (Hamann and Kelly, 2008). But these approaches underestimate the role of the state, although it is the state that directly or indirectly contributes to the formulation of employment protection regulations. Its role is equally significant during periods of economic crisis.

In order to take the results from Figure 2 into account, both the strategies employed by firms (including the regulations that have been negotiated with trade unions) and the public policy measures adopted during the 2008–9 crisis to adjust the labour markets in line with the new economic order will be considered. Six cases are drawn to demonstrate the range of the adjustments: the countries that occupy the four corners of Figure 2 (France, Spain, the UK and Ireland) along with two representative countries in the middle (Germany and Denmark). More specifically, these countries will be divided into three pairs, each one equating to a different ranking for the level of employment protection: high (France, Spain), intermediate (Germany, Denmark) and low (UK, Ireland). Table 1 contains the data which will be used to compare these six countries in terms of the impact of the crisis on GDP as well as the types of adjustments applied to the labour markets.

Table 1. Changes in the labour markets of six EU countries (2008–9)

	Rate of growth of GDP (2008–9)	Employment rate*		Unemployment rate*		Percentage share of temporary employment relative to overall employment		Percentage share of part-time employment relative to overall employment		Average annual hours worked by an employee	
		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
France	–2.6	64.6	64.1	7.4	9.1	14.2	13.5	12.9	13.3	1560	1554
Spain	–3.7	65.3	60.6	11.4	18.1	17.4	16.3	11.1	11.9	1647	1654
Germany	–4.7	70.2	70.4	7.6	7.8	14.7	14.5	21.8	21.9	1430	1390
Denmark	–5.2	78.1	75.7	3.4	6.1	8.4	8.9	17.7	18.9	1570	1563
UK	–4.9	72.7	70.6	5.4	7.8	5.4	5.7	23.0	23.9	1652	1646
Ireland	–7.6	68.1	62.5	5.8	12.2	8.5	8.5	20.8	23.7	1601	1549
UE-15	–	67.4	66.0	7.1	9.2	14.4	13.7	18.1	18.6	–	–

*Men and women from 15 to 64 years of age
Source: OECD

France and Spain: employment adjustment through increased labour market segmentation

France and Spain, which are generally regarded as having a high level of employment protection according to the OCED classification, have another feature in common, which is that over the last two decades their productive systems have been increasingly characterized by a high level of labour market segmentation. In France, the restructuring of the productive system from the 1990s onwards has given rise to a dual trend towards a refocusing on core business on the one hand and the outsourcing of non-core activities on the other. Under these circumstances, alongside a highly skilled and relatively well-protected segment, a veritable 'precariat' (made up of temporary agency workers, employees on fixed-term contracts, trainees/interns and subcontractors) has emerged at the heart of the market sector (Castel, 2003).

Largely as a result of its entry into the European Economic Community, Spain led a seemingly charmed existence during the years preceding the crisis. Between 1997 and 2007 the annual growth in GDP continually hovered around the 4 per cent mark, well above the European average. In the same period the unemployment rate fell from 17 per cent to 8 per cent. Stimulated by a rising employment rate and low interest rates prior to 2007, Spain followed the path of labour-intensive growth with a particular specialization in construction, tourism and hotel/catering services, all sectors that employ particularly high proportions of low-skilled workers (Clément et al., 2009). This explains why the jobs that were created went mainly to women and to immigrant workers and also explains why 'precarity' increased to a greater extent than elsewhere in Europe. In 2008, one third of employees were on temporary contracts, while only 22 per cent of new employees were given permanent contracts.

In France, as in Spain, short-term labour market adjustments occurred in 2008–9 by way of increased labour market segmentation (Table 1). The French manufacturing firms that were most immediately and directly affected by the decline in orders avoided making workers redundant in order to retain their skilled labour; instead, they resorted to short-time working. Use of this mechanism had declined steadily in previous years. In 2005, 1.8 million days of short-time working were authorized, six times less than in 1996 (Calavrezo et al., 2009). With the advent of the crisis, the number of employees placed on short-time suddenly rose, reaching a total of 319,000 by the second quarter of 2009. Besides introducing short-time working, reducing temporary work acted as a shock absorber, but this was to the detriment of individuals who were not part of the core labour force in the manufacturing sector: more than one in three temporary jobs were lost between the beginning of 2008 and the second quarter of 2009. In the service sector, fixed-term contracts operated as the adjustment variable.

Spanish firms also shifted the burden of the crisis onto the most vulnerable sections of the labour force. Even though the reforms introduced in Spain led to a reduction in the cost of redundancies, it was the most flexible segment of the labour market that became the target of adjustments. Between June 2008 and June 2009, 90 per cent of job losses were attributable to the disappearance of temporary posts. Ultimately, there are three reasons why the Spanish labour market suffered more from the shock unleashed by the crisis of 2008 than the French labour market. Firstly, the burden of adjustment was borne mainly by a secondary labour market that was much more highly developed than in the majority of European countries. Secondly, there was a decline in consumption. Thirdly, the reflationary package (exemption from social security contributions, abolition of the month-long waiting period for payment of unemployment benefit, etc.) was particularly restrained.

Germany and Denmark: two forms of adjustment via changes in the working time

Germany's strength in the years preceding the crisis was to have breathed new life into a model that had been shaken to its roots by reunification. As a result, the country was able, by virtue of high levels of exports in three major manufacturing industries (automotive, chemicals and mechanical engineering), to take advantage of growth driven by international demand. These industries were able, through the dual training system and occupational labour markets, to combine and actively manage product quality and job quality. When the crisis erupted, it was the large firms that were the first to flounder in the recession. In contrast to France and Spain, the adjustment of the German labour market did not take place at the expense of the most precarious.

In order to be able to retain their labour force, Germany's main strategy was to take advantage of internal flexibility in such a way as to reduce the volume of work while at the same time limiting the number of redundancies (Table 1). To this end, firms made use of reductions in working time and especially short-time working. A survey of 2324 works councils (*Betriebsräte*) conducted in November 2009 among firms with more than 20 employees showed that 30 per cent of firms used flexible working time, 20 per cent used partial unemployment, 28 per cent reduced the number of permanent employees, 24 per cent limited their use of temporary agency workers and 13 per cent did not renew workers' fixed-term contracts (Bogedan et al., 2009). In the German economy as a whole, the use of short-time working increased almost tenfold between November 2008 and mid-2009. In June 2009, the German Federal Labour Agency estimated that 1.4 million employees had already been put on short time, the equivalent of one employee in 20 in Germany and a reduction in working time of 30 per cent. One significant fact says a great deal about the choices made in Germany with regard to the coordination of employment: in November 2008, the same Federal Labour Agency authorized the use of short-time working for temporary agency workers in order to prevent them falling victim to redundancy, as many had in France.

Compared with Germany, Denmark's experience in the crisis was much harsher. For more than 10 years this country had seemed to have all the trappings of success. The explanation lies essentially in the reforms that began in the 1990s and that made it possible to combine a high degree of labour market flexibility (making workers redundant was relatively easy), high unemployment benefits and an active employment policy designed to enable the unemployed to raise their skill levels and thus to improve their employability. This formula worked well in a period of growth when the ease of labour mobility made it possible to offset the negative employment effects of restructuring exercises or relocation policies.

However, for an open economy like that of Germany which was dependent on exports, the crisis struck head on. In contrast to Germany, however, employment adjustment in Denmark was both expensive and rapid. The number of redundancies rocketed in January 2009. The unemployment rate rose from 3.3 per cent in August 2008 to 5.9 per cent in July 2009. The first to be affected were low-skilled workers in construction and manufacturing. The Danish government reacted very quickly, putting in place two rescue packages intended to keep the banks afloat, to maintain domestic demand and to boost the construction industry. Unlike Germany, therefore, the initial form of adjustment relied characteristically on external flexibility, which is hardly surprising given that flexibility is one of the components of the model that structures the Danish labour market. In common with Germany, however, it was by making changes to working time that Danish firms subsequently tried to deal with the recession. Firms relied on a forgotten tool, one where employment could be maintained and wage costs reduced: *Arbejdsfordeling*, or work sharing (Jorgensen, 2009).

Organized and provided via collective agreements, the use of this instrument met with rapid success. In January and February 2009, more than 500 cases of job sharing involving 12,000 employees were reported by local job centres, compared with 33 in 2006, 27 in 2007 and 213 in 2008. The value of this instrument is that for a maximum period of 13 weeks and in a number of different ways, employees reduce their working time very significantly (by the equivalent of at least two days per week). Thus a form of swap or trade-off was negotiated – reduction in working time (and thus in wage costs) was made in exchange for a guarantee of continued employment. As work sharing is not formally included in the arrangements for short-time working and is funded by the state, the reference point here is the legislation on unemployment benefit. This is why workers who find themselves in a period of enforced rest are obliged to behave in the same way as any other unemployed person i.e. they have to actively look for work, submit their CVs and attend meetings for the unemployed. Since its introduction, the instrument has been revised so that it can be used for periods longer than 13 weeks.

The UK and Ireland: adjustment through unemployment and underemployment

During the late 1990s and 2000s, the UK seemed to be one of the major beneficiaries of globalization and the financialization of the economy. Before the crisis, a relatively high standard of living and a low unemployment rate had been sustained by a high participation rate (notably among 54–65-year-olds) and longer working times than elsewhere. However, the country's economic growth had also been accompanied by a reinforcement of inequalities. Consumption, however, did not suffer. In 2006, it still amounted to 86 per cent of GDP, compared with 80.4 per cent in France and 76.8 per cent in Germany. Household indebtedness was the means whereby an economy driven by financial accumulation was able to function; this was until the mechanism seized up when the real interest rate rose in 2007 and the credit system collapsed.

Since the regulations governing redundancies and dismissals were some of the least draconian in Europe, it was hardly surprising that the labour market reacted rapidly to the crisis in autumn 2008. The unemployment rate, which had been below the 5.5 per cent mark since the beginning of the decade, rose within a few months to almost 8 per cent (Table 1) and in less than a year the employment rate among people of working age fell by 2.5 percentage points. In the face of the crisis, firms initially reacted by making large numbers of workers redundant; the manufacturing industry, the energy sector and the construction sector were the first to be affected and the most adversely affected. These adjustments led to a decline in the number of full-time jobs, particularly for men; this was not the case, however, for part-time jobs, which increased in number by a little more than 2.5 per cent between the end of 2008 and the end of 2009.

Given these circumstances, how can we explain why the pace of employment adjustment was nevertheless somewhat slower than in other European countries deemed to be much less flexible? Also, how can we explain why the pace of employment adjustment is slower today than in other recessions the UK has endured in recent times? There are two main reasons. The first is that firms not only shed labour, but also introduced a policy of wage restraint. The annual increase in household earned income fell from 3.5 per cent in the fourth quarter of 2008 to 1.8 per cent in the third quarter of 2009. A number of company plans and agreements clearly demonstrate the sacrifices demanded of employees (pay freeze or even a pay cut, holidays without pay, encouragement to work part-time, etc.) in order to avoid redundancies.

The second reason is the strategy adopted by the firms and by the government in order to manage the volume of employment, of unemployment and of underemployment. British firms adjusted the volume and cost of labour by increasing underemployment. According to the UK Office of National Statistics (ONS), between the third quarter of 2008 and the third quarter of 2009, as the number of unemployed people increased by 632,000 to reach 2.6 million, the number of underemployed people increased by 594,000 to reach 2.8 million (Walling and Clancy, 2010). Thus the unemployment rate rose by 2 per cent, while the underemployment rate rose by 2.2 per cent. Furthermore, the state influenced the labour market in two complementary and unequal ways. Government expenditure, which had been a driving force before the 2008 crisis, made it possible to slow down the speed of employment adjustment. Between June 2008 and June 2009, while the private sector was shedding more than 800,000 jobs, the public sector created more than 200,000 jobs in health care, education and local and national government. Reflationary packages designed to boost consumption and employment were also introduced.

Before the crisis, Ireland had been living its very own fairy tale. For a long time it had been ranked among the poorest countries in Europe, but by the year 2000 it had succeeded in becoming one of the richest, with a per capita GDP of 124 per cent (where 100% is equivalent to the average for the euro zone) and an unemployment rate of 4.1 per cent. The plentiful EEC subsidies that had poured into the country enabled it to embark on the task of modernization and to develop its manufacturing base and infrastructure as well as its education system. As a result, Ireland was able to adopt a neoliberal modernization policy that combined fiscal dumping with low social security contributions. Finally, wage inflation was kept in check by regular negotiations between the social partners.

Similarly to Spain, the factors that had favourably influenced growth prior to 2008 very quickly revealed themselves in an altogether different and disastrous light. In 2008, the Irish construction industry, which had accounted for 20 per cent of GDP in 2007, collapsed. It lost almost one third of its labour force. As in the UK, it was men, and more particularly those under 25 years of age, who were most severely affected by the recession. Again, as in the UK, the adjustment in the labour market as a whole took the form of a wholesale destruction of full-time jobs (decline of 10.1%), a rocketing unemployment rate (which rose from 5.9% in June 2008 to 12.6% in October 2009), increased underemployment (4.6% increase in part-time jobs between 2008 and 2009) and strong downward pressure on wages (1% fall in wage levels in 2009) (Delahaie, 2009). Finally, in complete contrast to most European countries, the Irish government did not activate any of the levers of Keynesian economic policy to meet the crisis head on. It opted rather for a pay squeeze and budgetary rigour.

Crisis, forms of employment adjustment and varieties of capitalism

The three types of adjustments identified above demonstrate the continued existence of three varieties of capitalism. Two of these have been analysed in detail by Hall and Soskice (2001). LMEs tend to have the following characteristics: restrained public expenditure and limited redistribution; relatively ungenerous welfare benefits targeted primarily at the poorest members of society; high wage flexibility, financial markets as the main source of corporate financing and finally; an ‘automatic’ macroeconomic policy (balanced budget, growth in the money supply at a fixed rate). In contrast, the CME model is based on coordination mechanisms that avoid the market, a more active role for the state, a high level of compulsory tax and social security deductions and more generally, a relatively generous social security system, autonomous social partners and a sense of compromise between the representatives of capital and labour along with an important role for the banks in the financing of economic activity. These are some of the specific characteristics of a model that takes a variety of different forms and that can be found in a number of central and northern European countries, including Germany, Switzerland, Austria, the Netherlands, Denmark, Sweden and even Finland.

Following the work of other researchers and in order to complete the picture, a third variety can be considered which is very different from the two previous models: the Mediterranean model (ME). Hall and Soskice suggest its existence with reference to France, Italy, Spain, Portugal, Greece and Turkey. This model is 'marked by a large agrarian sector and recent histories of extensive state intervention that have left them with specific kinds of capacities for non-market coordination in the sphere of corporate finance, but more liberal arrangements' (Hall and Soskice, 2001: 21). In reality, these two authors do not think much of a model that they see as perched ambiguously between CMEs and LMEs. Molina and Rhodes (2007) also acknowledge the existence of a third variety of capitalism, but they also diminish its specificity by considering it to be a mix of LME and CME.

In the manner of Amable (2003) and Schmidt (2003) it is here argued that the model is a variety which is neither ambiguous nor a combination. It is a variety which has its own consistency and in which the state plays a key role. There is also a high degree of complementarity between the social protection system (less developed though it may be than in the CME type) and a much higher level of protection than in Germany, Austria or the Nordic countries. Again, in contrast to CMEs, MEs are characterized by the relative weakness of their education and training systems and a real difficulty in implementing industrial strategies designed to encourage the development of high value-added products. As a result, these economies really struggle to integrate young people into the labour market, while employers' policies tend to be aimed at squeezing wage costs. In this third variety of capitalism, and this time in contrast to the LMEs, the banks play a more important role in corporate financing, which does not of course mean that those countries that come closest to the ME model have escaped the trend towards disintermediation that began more than twenty years ago.

The characteristics of the three varieties of capitalism can be used to infer labour market characteristics and employment coordination strategies specific to each ideal type. Comparison of the information contained in Table 2 with the observations carried out previously provides solid evidence for the notion that a number of different varieties of capitalism continue to exist within Europe. In order to make the argument entirely convincing, the scope of the demonstration should be extended to the remaining EU-15 countries. A data analysis, the results of which form the basis for Figure 3, gives grounds for believing that the hypothesis is indeed apposite.[4] LMEs tend to give priority to adjustment mediated through wages, unemployment and underemployment; CMEs have used internal flexibility (reduction and sharing of working time); MEs have shifted the cost of adjustment onto the most precarious segments of their labour markets.

Thus we now have enough information to be able to answer the two questions posed in the introduction: not only is it possible to make a distinction between three varieties of capitalism in the European Union, but in addition, the three strategies used to adapt labour markets in response to the crisis of 2008–9 show that the ideal types formulated by the theory of VoC are far from being obsolete. The above models can also help us

Table 2. Labour market regulations and varieties of capitalism

	LMEs	CMEs	MEs
Labour market characteristics	Weak employment protection Secondary and external markets	Intermediate level of employment protection, mobility facilitated by high levels of generic qualifications/skills Occupational markets	Strong employment protection Internal markets, labour market segmentation
Preferred instruments of employment adjustment	External flexibility: redundancies, wage flexibility	Internal flexibility: working time, functional flexibility	Dual flexibility: protection for the core labour force and precarity
Main response to employment crisis	Accentuation of misadjustments	Adaptation to the crisis	Reinforcement of inequalities

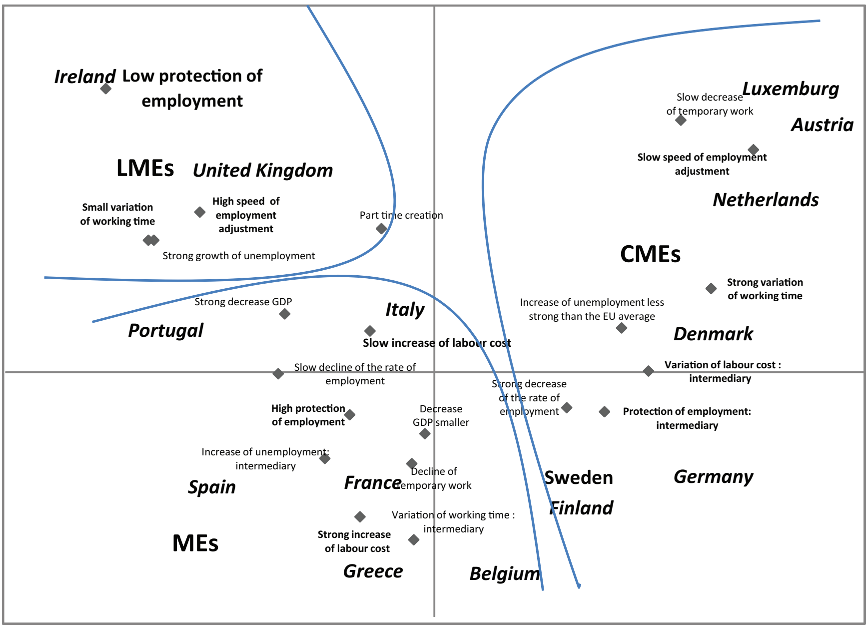

Figure 3. Forms of employment adjustment (2008–9) and varieties of European capitalism

understand the short-term dynamics as observed in the crisis, at least in relation to employment. Public policy in this domain is organized differently from the approaches used by firms. The timidity of state intervention in the LMEs led to Ireland's labour market experiencing rapid and heightened consequences from the recession, whereas by creating jobs in the public sector, the UK was able to stave off the recessive impacts of the strategies adopted by private sector firms. In the CMEs, Germany being the prime example, state intervention consolidated the system of internal flexibility and facilitated the adaptation of the labour market to the drop in production. Governments in MEs directly reinforced the customary practice of the private sector, i.e. the segmentation of the labour market between ‘insiders’ and ‘outsiders’.

Ultimately, from a comparative perspective this observation joins with and adds to those analyses that have concentrated on the cases of particular countries. These analyses have shown that the fabric of institutional organization within each variety of European capitalism has not been rent by the economic metamorphosis which has occurred since the 1980s. Thelen (2009) has underlined this in the case of Germany. The institutional changes that have been made in industrial relations, continuing training and social protection have simply broken down the old forms of solidarity in favour of greater segmentation between protected workers and others (Standing, 2011). Despite these changes and despite the length of time it took to absorb the impact of reunification, the ingredients of Germany’s success were still present in the first decade of the 21st century: specialization in high-quality industrial products; productive flexibility based on inter-firm cooperation; the dual system that links the training and productive system and co-determination. The same is true in the case of France, where despite significant developments in the various forms of government action, the last 30 years have seen the state continue to play a decisive role, a role which has intensified when it comes to spending on employment measures (Lallement, 2006).

Conclusion

When it comes to employment, and more generally to the forms of capitalism present in Europe, two inferences can be drawn from the 2008–9 crisis. The first is that three types of adjustment were applied to the labour markets in Europe: adjustments involving segmentation, working time and unemployment/underemployment. As the products of private sector and public sector policies, these strategies reflected the persistence of three varieties of capitalism (VoC) in Europe. The crisis brought about a different response from each variety of capitalism: accentuation of misadjustments in the case of LMEs; adaptation in the case of CMEs and reinforcement of inequalities in the case of MEs. In consequence, it appears, and this is the second inference, that despite the metamorphosis that European economies have undergone over the last three decades, the characteristic mechanisms and forms of institutional organization/expression in the different capitalist models have not been eroded to the point where VoC typologies could be considered as obsolete.

This being the case, it is true that the above analysis concerns very short-term adjustments. It is not certain that the three models would counter the structural effects of the 2008–9 crisis in the same way over the longer term. Already we can observe that each country has dealt with the crisis differently. Germany, an excellent example of a CME country, enjoyed an exceptional recovery after 2010 with a growth rate double that of the other countries in the euro zone. This has led to a decrease of 0.7 percentage points in Germany’s unemployment rate when labour markets elsewhere have remained gloomy.

We can also observe how the erstwhile forms of coordination, which induced buoyant labour markets in all three varieties of capitalism before the crisis, caused damage during the crisis, even managing to amplify the faults of the existing synergies. The trajectories of Ireland, Spain and to a lesser extent Denmark bear witness to this. Both observations appear to offer a new opportunity for the VoC approach, an opportunity that involves constructing a hypothesis: a model's particular institutional combinations do not necessarily engender the same effects over the short/long term and during a period of growth/ period of crisis. We will however have to be patient for a little longer before being able to use the 2008–9 crisis as a yardstick by which we can fully judge this new potential.

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Notes

1 For EU-27 countries, the fall in GDP was of a similar magnitude, but I have chosen to limit my analysis to the EU-15 for methodological reasons, i.e. the difficulty in obtaining access to relevant data and literature for all the current members of the EU.

2 The effects of the crisis vary also by gender and age. Since manufacturing industry was the first to be affected and the most adversely affected by the recession, the male unemployment rate increased more quickly than the female rate, so much so that from the beginning of 2009 onwards the former exceeded the latter. Qualifications appear also to provide effective protection against the risks of unemployment. In all countries, it was individuals with low qualification levels who bore the brunt of the crisis.

3 Et is obtained in the following way: if we call Y the sum of the added values, E the volume of employment and P the labour productivity, then $Y = (Y/E) \times E$ and it follows that $\Delta Y/Y = (\Delta P/P) + (\Delta E/E)$. By using the average of past productivity gains as an estimate for $\Delta P/P$, we can then calculate a theoretical volume of employment: $Et_{Q32009} = Eo_{Q32008} + [(Y_{2009} - Y_{2008})/Y_{2008}] - \Delta P/P$.

4 The data used come from Eurostat. I analysed the forms of adjustment to the crisis in EU-15 countries by differentiating the use of the available mechanisms and levers (reductions in working time, in temporary work, in wage costs, etc.) relative to the average. The active variables are shown in bold on the graph. The specific values are 0.37 and 0.18 respectively.

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