

Is There a Distinctive Southern European Employment Model?

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Abstract

The paper argues that Italy, Spain, Portugal, and Greece possess the same employment model, which is distinctive from that of other European and Organization for Economic Co-operation and Development (OECD) countries. This can be attributed to common patterns of capitalist development but also to radical social and political changes in the 1970s in these four countries. Labor market reforms in these countries since the mid-1980s have varied in scope and intensity and have increased diversity within the Southern European employment model. However, they have not undermined the underlying logic and coherence of institutions, which explain continuing similarities in the employment system of the aforementioned countries.

An employment model is defined in this paper as comprising three elements: (a) *labor market structures* that refer to the composition and structure of labor supply and employment as well as to labor market segmentation; (b) *labor market outcomes* that refer to overall performance indicators such as wage and employment growth; activity, employment, and unemployment rates; degree of employment stability and labor mobility; volume of working time, etc.; and (c) an *employment regime* that refers to the institutions and social practices governing industrial relations and wage setting; education, training, and skills development; employment adjustment and labor mobility; and working time and work organization. Although the employment regime affects both labor market structures and outcomes, the latter are also shaped by the production and welfare regimes.

The paper discusses the hypothesis that, notwithstanding differences in some of their labor market features and institutional arrangements, Italy, Greece, Spain, and Portugal possess the same employment model, which is distinctive from that of other European and Organization for Economic Co-operation and Development (OECD) countries. We argue that the Southern

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European (SE) employment model emerged from common patterns of capitalist development as well as from radical political change and social unrest in the late 1960s, 1970s, and early 1980s. Since the mid-1980s the employment regimes in Italy, Greece, Spain, and Portugal have been facing common challenges, especially high and persistent unemployment and the growing participation of married women in the labor market. As a result a number of reforms of the employment regime have taken place. The production systems of these countries also have been transformed under the pressures of growing openness of their economies and intensified competition. Institutional reform and structural change have increased preexisting national/ regional diversity within the SE employment model. In spite of growing diversity, we contend that the latter still maintains its distinctiveness.

In the following section of the paper we describe the SE employment model and briefly review literature on its determinants. The next section discusses and compares the changes in the employment systems and regimes of Italy, Greece, Spain, and Portugal since the mid-1980s. In the final section we assess the resilience of the SE employment model in view of the changes in the four countries over the last twenty years.

The Southern European Employment Model

The Italian, Greek, Spanish, and Portuguese labor markets display a great number of similarities. Comparative socioeconomic research has identified the following shared characteristics: relatively high shares of agriculture in total employment; high self-employment rates; low female activity and employment rates; high unemployment rates among youth and women and low unemployment rates among prime age and older male labor force participants; low part-time employment rates and widespread informal work; relatively high shares of low-educated workers in all employed; restricted outflows from unemployment/inactivity to employment and relatively low upward labor mobility; and pronounced labor market segmentation along different divisions—public/private sector, large/small firms, formal/underground economy, age, gender, and ethnicity.

Common features among the four aforementioned SE countries have also been detected with respect to labor market and welfare institutions affecting the structure of labor supply and demand as well as labor market operation and outcomes. Industrial relations are adversarial, employment stability conveyed by the regular labor contract is very strong, labor market policy is underdeveloped, and the traditional family model and the “gender order” that underpins it produce large differences between women and men in labor market participation and in the quality of jobs and careers they hold and engage in.

Below we briefly discuss the different strands of literature that explain the common features of the model. In the development economics literature of the 1980s, Spain, Portugal, and Greece were seen as *semi-peripheral* or *newly industrialized* countries. These terms captured their spectacular industrial performance and upgrading of their industrial system as well as the growth of their manufacturing exports in the postwar decades, but especially since the beginning of the 1960s. At the same time their high shares of agriculture in total employment relative to the advanced industrial countries were attributed to belated industrialization and delayed de-ruralization.

Italy fits less than the other three countries in the Southern European development model because of the early and intensive industrialization of the northern portion of the country. Yet the persistent and growing development gap between the north and the south in the postwar decades has made many Italian authors speak about two extremely different and divergent paths of development in these two parts of the country (see, for instance, Garofoli 1991): intensive industrialization based on mass production of consumer goods (fordism) in the north, compared to de-ruralization, weak industrialization, and growth of construction and services in the south. The research and debate on the “Third Italy” in the late 1970s and the first half of the 1980s revealed a third development pattern in the same country.

In comparative literature on welfare regimes, Esping-Andersen was the first to point to the interrelationship of welfare states, family models, and labor market institutions. In a recent work he has made special reference to this interrelationship in SE by noting that “the unusually high levels of worker security that characterize especially Southern Europe reflect an implicit familialism in labour market management, namely the urgency of safeguarding the earnings and career stability of the male bread-winner” (Esping-Andersen 1999: 23). In the same work he has also argued that formal rigidity of employment in SE has been countervailed by informal flexibilities that “mainly take the form of informal (or black-economy) employment and, increasingly, self-employment” (129). Following Esping-Andersen’s analysis, many authors went a step further to consider the employment regime as an integral part of the welfare regime.

Muffels et al. (2002) have tried to link the employment regime typology with the theory of transitional labor markets. Their analysis of labor market transitions for EU-15 countries established the distinctiveness of the SE employment model relative to the Nordic, the continental European, and the liberal models. SE countries were found to score low on employment stability and upward mobility (from bad to good jobs, and from temporary to permanent employment) and high on unemployment stability and downward mobility (from permanent to insecure jobs, and from employment to unemployment or inactivity).

Auer (2005) has tested the interaction between job and employment security for a number of EU and OECD countries. According to his analysis, SE countries and Japan form a distinctive group of countries characterized by very strict employment protection legislation and low labor market policy spending, which proves to be a trade-off between these two alternative sources of income and employment security. Moreover, a relatively recent study by the OECD (2004) has established that the stringency of employment protection legislation in SE countries is responsible for their acute labor market segmentation, leading to the concentration and high incidence of unemployment and employment insecurity among women, youth, and vulnerable groups.

A seminal contribution to the debate is that of Mingione (2002), who argues that Italy, Greece, Spain, and Portugal constitute variants of the same *model of capitalist development*. This is typical of late-industrializing countries where the state has persistently protected the productive role of small and family enterprises. Consequently, the formation of a fully proletarianized manufacturing working class is limited, while nonwage contributions to the livelihood strategies of households and irregular forms of work are disproportionately diffused. At the same time, tolerance of tax evasion by small and family firms and independent workers has led to high taxation on wage work, thus contributing to the spread of the underground economy and informal work. On the other hand, the *familial philosophy* of postwar governments in these countries has been a cornerstone of *social policy* characterized by high degrees of employment protection for the male breadwinner in large- and medium-sized concerns and underfinanced social services. The familial philosophy and its corresponding social policy are also responsible for the low official participation rate of adult married women in the labor market. Finally, the long tradition of *emigration* resulting from de-ruralization and industrialization has led to extremely weak state policies—such as vocational training and active labor market policies—supporting young workers' entry into the labor market. For Mingione the "SE model of labour market structuration" is the product of a SE pattern of socioeconomic development whose core is (a) the strong *economic role of the family* and (b) a *not fully proletarianized* (dependent on wage income) condition of workers.

Changes in the Employment Systems and Regimes of SE Countries in Recent Decades

The few decades have seen important changes in all the aspects of the national employment system of the four SE countries, which were qualified by socioeconomic research as distinctive of the SE employment model. SE countries today are not the most agrarian economies in the EU-15 but the least tertiarized. The role of self-employment in the employment system is

still notable in all four SE countries, although increasing proletarianization has taken place in the last decades. A large number of those registered as self-employed are today dependent workers, while it has become increasingly difficult for the members of new generations to settle on their own account or create microbusinesses.

Although in the beginning of the 1980s all SE countries displayed medium rates of temporary employment and high job stability, Spain belongs today to the OECD countries with low job stability, while Spain and Portugal possess higher than OECD average temporary employment rates. Italy and Greece are still the countries with medium incidence of temporary employment and very high job stability by international standards. However, in Greece and Italy widespread self-employment and nonregular work operate as *functional equivalents* to temporary employment and flexibility in the open-ended labor contract. Until the beginning of the 1990s, all four SE countries had a very low incidence of part-time work relative to both the EU and the OECD average. Between 1990 and 2005 the part-time rate rose sharply in Italy and Spain and decreased slightly in Portugal and Greece. The distinctiveness of the SE employment model can no more rely on low part-time rates.

Although female activity and employment rates have grown during the last decades, they are still among the lowest in the EU. Portugal, whose female activity and employment rates were among the highest in the EU since the early 1980s, is still an outlier of the SE model in this respect. High discrimination of unemployment against women and young people also remains another distinctive feature of the Greek, Spanish, and Italian employment systems but not of the Portuguese any more. Portugal is again an outlier. Moreover, in spite of significant efforts to raise the education attainment level of the working wage population, SE countries have today the highest shares of low-educated labor forces in the EU-25 together with Malta. Finally, since the early 1990s SE has received huge migration flows. In all SE countries immigration has inflated a basic feature of the SE employment model: informal work.

Important changes have also taken place in the employment regimes of SE countries. Industrial relations have become less adversarial—more so in Italy and Spain and less so in Portugal and Greece. Automatic indexation systems of wages to prices have been abolished and direct state intervention to wage determination has disappeared, while articulation of the different levels of bargaining has been abolished and the hierarchy of bargaining levels established. All changes have been motivated by a preoccupation of wage flexibility in order to curb inflation and prevent the erosion of firms' competitiveness. The changes have succeeded in bringing about wage moderation in Italy and Spain but have failed to do so in Portugal and Greece.

A distinctive feature of the SE employment regime has been the stringent

employment protection legislation. Legislative protection of employees with indefinite duration contracts has been relaxed in Portugal and Spain in the last twenty years but not in Greece and Italy, while legislation on the use of fixed-term contracts has undergone contradictory changes toward permissiveness and restrictiveness in the same country. Employment protection legislation for the open-ended contract is still higher today in SE than in the rest of OECD countries. The same is true for the stringency in the use of fixed-term contracts. However, Italy and Portugal have recently joined the OECD countries with moderate restrictiveness in the use of fixed-term contracts.

Unemployment compensation systems in SE were residual before the late 1960s in Italy and the mid-1970s in Spain, Portugal, and Greece. Today, Spain and Portugal possess systems that are among the most generous in the EU-15, Italy has a much less generous system than those of Spain and Portugal, and Greece exhibits the least generous system in the EU-15. Active labor market policies (ALMP) were underdeveloped in all SE countries before the availability of EU resources made possible the development of such policies. However, in 2004 the SE countries as a whole had a less extensive ALMP after the United Kingdom among the countries of the former EU-15 and slightly more developed ALMP than those of the ten new EU-25 member states.

Demise or Endurance of the Southern European Employment Model?

Let us now turn to the *core elements* of the SE employment model. The rates of self-employment remain very high in all SE countries except Spain. At the same time the productive role of the family is retreating along with the increasing difficulties that small and medium enterprises (SMEs) face to cope with international competition and uncertainty. In contrast, the reproductive role of the family is increasing due to the support it provides to its offspring during longer periods in education and unemployment. The growing financial burden of children undermines the male breadwinner family model by corroborating the establishment of a two-earner model and constantly pushing the female activity rates upward. However, SE countries still maintain the lowest female activity and employment rates in the EU.

Mass emigration during postwar decades made full employment possible in the first half of the 1970s and the design of ALMP pointless. In the last few decades high unemployment has called for ALMP to enable the entry of young people in the labor market and their stabilization in employment. However, their development has been constrained by the lack of financial resources. Employment protection of the male breadwinner and the smooth exit of “insiders” through incentive schemes have been the basic tools of unemployment management in all four SE countries during the crisis and are responsible for

the remarkable continuity and distinctiveness of the SE employment regime. Divergences have appeared among SE countries with regard to the mobilization of temporary and part-time work in combating youth and female unemployment.

We conclude that structural and institutional changes in the last decades have increased diversity within the SE employment model due to diverging national responses to common challenges. However, these changes have not radically transformed the principles and logic of the model, which underpin its institutional and structural specificity and distinctiveness.

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