

## PROVOCATION SERIES PAPER

## Flexibility bites back: the multiple and hidden costs of flexible employment policies

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*Flexible labour markets are increasingly regarded as the answer to a wide spectrum of labour market and societal challenges from creating jobs to reducing segmentation and welfare dependency, improving public finances and supporting workforce diversity and innovation. The contention is that, contrary to these claims, flexible labour markets generate fundamental contradictions and unsustainable long-term trends. The jobs miracle is exaggerated and based on low productivity jobs, outsiders often lose most from competition, claimants must work flexibly but still secure a full-time wage, low-wage employment is shrinking the fiscal base, jobs are not being adjusted to accommodate workers' changing needs and capacities and the disposable labour model is undermining long-term productivity.*

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## INTRODUCTION

The UK is famous for its flexible labour market. Not only has it been responsible for an apparent jobs miracle<sup>1</sup> since the economic crisis but according to the Organisation for Economic Cooperation and Development (OECD), it offers a model for the rest of Europe to follow.<sup>2</sup> Its capacity for working economic miracles is said to extend beyond job creation to promoting less segmented, more inclusive labour markets for outsiders, not insiders (Rueda, 2005), in contrast to dualist European labour markets such as Spain (Bentolila *et al.*, 2012). It is also held to reduce welfare dependency and welfare costs, thereby also helping to solve problems of the public purse posed by the crisis and demographic ageing. Flexible labour markets are also equated with modernisation, with adaptation to an increasingly diverse labour force by offering opportunities for work–life balance, unlike traditional inflexible labour markets still prevailing elsewhere in Europe. Even zero-hours contracts have been categorised by some politicians as a work–life balance policy.<sup>3</sup> Finally, flexible labour markets are believed to facilitate adjustment to transformative technologies (Chesbrough, 2011), thereby promoting long-term competitiveness and productivity.

These highly positive evaluations are being used to promote the diffusion of flexible labour markets beyond the archetypical examples of the UK and the US. The absolute insistence on labour market reforms in the Greek bailout deal reveals the strength of international policymakers' commitment to flexible labour markets. Much of the counter argument focuses on the associated low pay and insecure, even exploitative, employment conditions. Here, we leave this critique on one side, accepting that job quality for its own sake is currently not a political priority. Instead, we focus on how the claims for flexible labour markets do not stack up, even given the narrow objectives of international and national governments. The problems we identify

derive primarily from three factors: (a) a naive belief among policymakers that labour market inequalities derive primarily from regulation, (b) insufficient awareness of the complex interrelations and feedback mechanisms between employment and family, welfare, tax, education, production and innovation systems, and (c) a belief that it is acceptable for employers to shed many of their traditional responsibilities towards employees without consideration of the impact on families and the state. All three factors, we argue, generate major contradictions between policies and undesirable outcomes even from the perspective of neoliberal policymakers.

Flexibility, thus, has a way of biting back, of creating problems that are neither fully anticipated nor resolvable within this disposable labour model. The current UK government is starting to recognise some contradictions, as indicated by the surprise announcement of significant increases in the national minimum wage in its July 2015 budget in direct opposition to the mantras of flexible labour markets. However, this change is more a tactical move than a deep conversion to improving job quality and a cover for reducing low income households' budgets through deep cuts to tax credits (that is, in-work benefits).<sup>4</sup>

To develop our argument, we take six supposed policy benefits of flexible labour markets and present for each the standard argument for pursuing flexibility before assessing the plausibility of and evidence for these effects. Finally, for each policy objective, we consider arguments and evidence that flexibility may indeed be biting back, as it creates contradictions and perverse outcomes. Before unpicking the claims for flexibility's beneficial effects, we need first to explore the various meanings and uses of the term flexibility and clarify the flexibility policies and practices we will be focusing on. The context is the UK labour market and social welfare system. Analogous developments are found elsewhere, and we point to examples where appropriate, but contradictions often take a country-specific form, arising out of the interplay between social welfare, production and labour market regulations.

### FLEXIBILITY – A VERY FLEXIBLE TERM

Fleetwood (2007), in a perceptive article, pointed out that the term flexibility has been increasingly used synonymously with policies to facilitate work–life balance. Such positive connotations hide the ongoing trend towards longer and more flexible working hours, which are actually increasing work–life conflicts. For example, the UK government's work–life balance survey interprets flexible working only as opportunities to work in different ways to combine work and family or personal life (BIS, 2012, 2014). There are no parallel questions on how often workers had to adjust their family schedule at short notice to meet work demands. Yet, when policymakers laud flexibility for creating jobs, they have in mind its impact in reducing costs and freeing employers to hire and fire and deploy labour according to demand. And while flexible labour markets are considered to ease the inclusion of those seeking non-standard hours, this is not followed up by a general obligation on employers to take employees' needs into account when organising work, a move which would be classified as a return to more rigid and regulated labour markets.

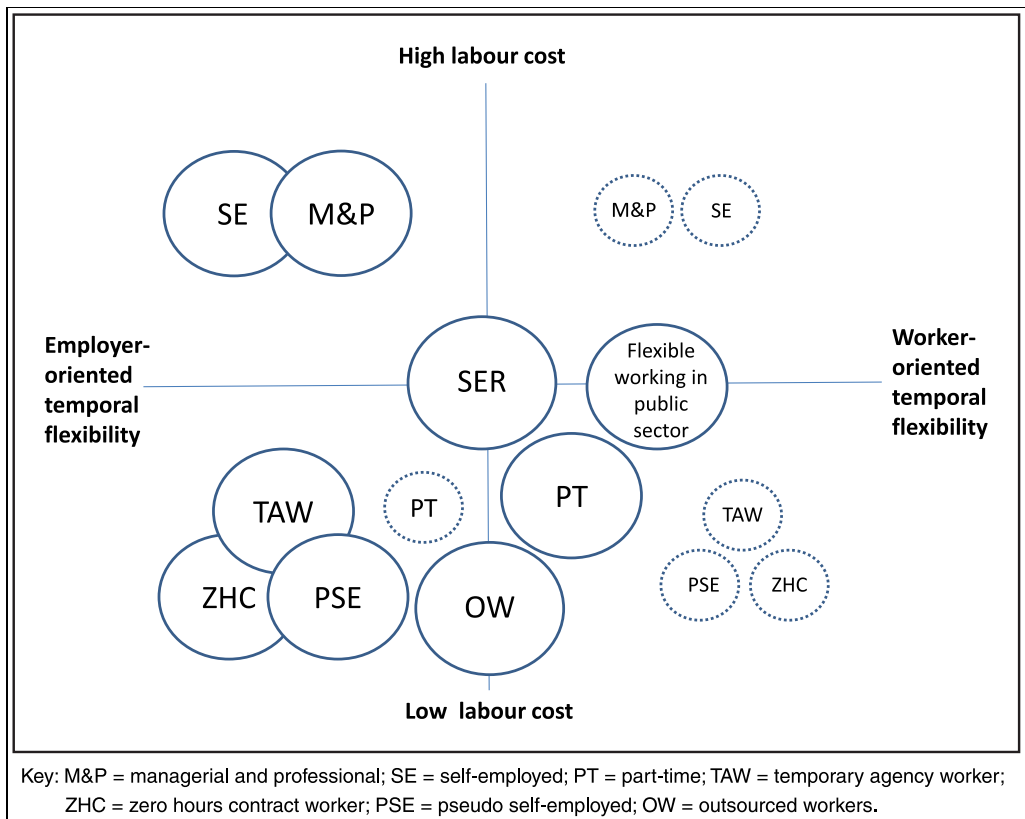
These flexible interpretations of flexibility undoubtedly give rise to ambiguity, intentional and unintentional. Flexibility may refer primarily to the deployment of labour to include flexibility in numbers employed, volume of hours and scheduling over the day, week or year. On the other hand, flexibility is also associated with changes in labour costs and reductions in the risks and responsibilities borne by employers. To clarify the meanings of flexibility, it is helpful to take the standard employment relationship (SER) as a benchmark where this implies (a) regular, predictable and normally full-time hours with extra hours largely voluntary and rewarded with additional premia and (b) pay and conditions that not only meet legal

minimum standards but also reflect established norms for sectors and skills, often determined through collective bargaining.

The SER can be considered to be located at the origin of the two axes in Figure 1. The x-axis traces temporal flexibility with worker-oriented flexibility on the right and employer-oriented flexibility on the left. It refers to the ability to define and/or adjust employment and working hours. The y-axis traces labour cost flexibility with upward variations in relation to SER costs (pay, conditions, social security and pensions) above the origin and downward variations in costs below the origin. The latter refers to labour that attracts lower social costs (both state-mandated and employer benefits) and is covered by fewer employment rights and/or offers lower pay (including premiums and bonuses).

The concentrations of the main types of flexible employment are indicated by circles. As these various flexible employment forms may simultaneously offer both employer-oriented and worker-oriented temporal flexibility, they may be found in more than one quadrant. The dominant form is indicated by a large, solid line circle and the main secondary form by a smaller, dashed line circle.<sup>5</sup> In the top half of the diagram, we find groups with relatively strong bargaining power whom employers seek to recruit and retain through individualised pay settlements and distribution of economic rents from high value-added sectors and companies. These groups are found mainly among managers and professionals plus some self employed workers with market power. However, higher wages, particularly among managers and

**FIGURE 1** *Stylised presentation of employment types in relation to temporal and labour cost flexibilities*



professionals or high paid self employed freelance workers, may also require acceptance of highly flexible and long employer-oriented working time, placing these groups in the top left quadrant (BIS, 2012, 2014). The top right-hand quadrant is less well-populated with only a few being able to bargain for both above standard pay and worker-oriented flexible working. The main group would be self-employed freelances in areas of labour shortage.

The types of flexibility with which this article is most concerned are found below the horizontal line, particularly in the bottom left-hand quadrant where working flexibly according to employer needs ( $x$ -axis) is combined with low job security, worse terms and conditions and less access to social protection ( $y$ -axis). In the UK, the core groups here are zero-hours contracts, agency workers and pseudo self-employment. Most fall in the left quadrant where deployment is driven by employer needs,<sup>6</sup> and only a minority, those just interested in casual work, who pick and choose how much and when they work, are found in the bottom right-hand quadrant. In contrast, part-time work tends to be concentrated in the bottom right-hand quadrant with poorer terms and conditions of employment as the price for employee-oriented flexibility. Evidence for this is found in the high concentration of part-timers in the UK on minimum pay rates, irrespective of skills and experience, like, for example, in social care (Bessa *et al.*, 2013) and in the limited pay progression opportunities in many private services sectors (CIPD, 2014; Devins, 2014). Even those negotiating reduced hours within their previous full-time job report this as harming pay and promotion prospects (BIS, 2015). Some employers also use part-time work to meet their flexibility needs. Indeed, although some mothers with part-time employment work unsocial hours to fit with opportunities for partners to provide childcare, many do so because of job requirements rather than voluntary choice (La Valle *et al.*, 2002; Fagan *et al.*, 2011). This is not necessarily captured in data on the involuntary character of employment as it may be perceived as the best option available.

Finally, variations from a standard employment relationship may apply along only one dimension: outsourced workers may work standard hours but experience worse pay and conditions where subcontracting is used to reduce pay costs. These may be considered as symbolic of standard full-time workers who are no longer covered by collective regulation of pay and who receive wages that do not reflect their skills or experience; this is especially true after the 2014 diminishing of the protections under the Transfer of Undertakings (Protection of Employment) Regulations 2006 now allowing for a renegotiation of collectively agreed conditions 1 year after transfer.<sup>7</sup> On the other hand, public sector employees who negotiate flexible working may be able to retain SER conditions, as indicted by much higher earnings for some public sector part-timers (Rubery and Rafferty, 2013).

### FLEXIBILITY: A MIRACLE CURE OR A TROJAN HORSE?

Flexible employment of both the temporal and the low cost variety has been increasingly trumpeted by the UK and the European Union (EU) as a miracle cure for a range of macro-economic and micro-economic objectives. We take these objectives to include generating employment opportunities, reducing insider protection to increase opportunities for outsiders, reducing the welfare bill, improving public finances, adapting to a more diverse labour force to facilitate higher employment rates and promoting competitiveness. The priority attached to the objectives varies, but central to the current UK government's programme are reducing welfare costs, improving public finances and moving more people into employment. Our concern here is to identify how far the policy of flexible labour markets supports these policy objectives or whether, instead, flexibility is 'biting back' by creating new problems and contradictions.

## **Flexibility and job creation**

Flexible labour markets are argued to create more jobs: firms are more willing to hire new employees as they are better able to reduce employment if necessary; and with flexibility of conditions, for example, in the number or scheduling of hours, firms create jobs that would not be viable under more restrictive conditions. Simms (2010) describes how successive UK governments have considered labour market flexibility to be a kind of 'flexicurity' because the high job creation offers opportunities to those made redundant. This contrasts with the famous Danish model of flexicurity, where weak employment protection and high rates of job vacancies are combined with high unemployment benefits and effective active labour market programmes to provide more security to workers (Madsen, 2002).

These flexibility arguments have been cited to explain the strong recovery in employment after the financial crisis. David Cameron boasted that the coalition government created 1,000 jobs a day since coming to power in May 2010. By January 2015, employment had risen by 1.8 million and the unemployment rate had fallen to 5.6 per cent (April–June 2015), among the lowest in the EU. The OECD has praised the resilience of the labour market (OECD, 2015a: 14) and highlighted the impact of structural labour market reforms: 'Welfare, pension and immigration reforms have lowered reservation wages, and declines in labour unionisation have reduced labour's bargaining power... These reforms have lifted the participation rate..., which otherwise would have been falling if only accounted for by population ageing' (OECD, 2015a: 25). It has informed conclusions that the 'UK economy is pulling away from the rest of Europe' thanks to a 'jobs miracle' (Hirst, 2015).

However, the picture is not as straightforward as sketched by these data, and there are several inherent contradictions in this employment success. First, the creation of jobs has been necessitated by a rising population. Between 2008 and 2015, the population aged over 16 years rose by more than 2.5 million and the employment rate actually fell from 60.4 to 59.7 per cent with the male rate (aged 16–64 years) declining from 79.0 to 78.1 per cent and the female rate (aged 16–59 years) rising from 70.5 to 71.3 per cent, indicating the continued secular upward trend in female employment.<sup>8</sup>

Another issue concerns employment quality. Most new jobs created from the post-recessionary employment trough to mid-2014 involved part-time employment, zero-hour contracts and self-employment.<sup>9</sup> Self-employment rose to around 4.5 million jobs by mid-2014, its highest level in 40 years, and accounted for around two in five net jobs since early 2010. Moreover, it accounted for three quarters of the million net jobs created by 2014 compared with the pre-crisis peak of 29.6 million (March–May 2008). Full-time employment has increased but only exceeded its early 2008 level by mid-2014. Real average hourly pay also fell by 10 per cent between 2009 and 2013 with nominal wage growth consistently below price inflation. This is recorded as the longest sustained period of falling real wages since records began in 1964 (Taylor *et al.*, 2014). Only very low inflation has contributed to a very small rise in real wages since.<sup>10</sup>

Young workers in the UK have suffered from the steepest falls in real wages (Cribb and Joyce, 2015), high unemployment rates and opportunities often restricted to temporary employment, zero-hours contracts and agency work. While youth face similar disadvantages in other European countries (for Italy, see O'Higgins, 2011), the crisis and recovery experience of Germany demonstrates that it is not an inevitable consequence (Bosch, 2011). Much of this flexible employment is involuntary; for example, 81 per cent of 20- to 24-year-old agency workers in 2014 said they could not find a permanent job.<sup>11</sup> Young workers also suffered from reduced possibilities of progression to better forms of employment resulting in lower job to job

mobility (Devins, 2014; Gregg and Gardiner, 2015). This can be considered an expected outcome of labour market flexibility where employment is perceived more as a transaction than a relationship, but constitutes a direct cost in terms of under-investment in both workforce skills and the foundations for raising productivity (see section on productivity effects).

### **Flexibility and the insider/outsider divide**

Another argument in favour of labour market flexibility concerns its potentially positive impact on so-called outsiders in the labour market. This argument has been promoted not only within mainstream economics (Lindbeck and Snower, 2002) but also within political science. For example, Rueda (2005) argues that labour market regulation favours insiders who focus on their own employment and wage increases; these insiders disproportionately vote for social democratic parties, which together with trade unions push for regulations that contribute to labour market dualism and negatively affect the chances of outsiders such as unemployed and younger workers. Related arguments by Palier and Thelen (2010) stress how dualization has resulted from the linkages among changes in industrial relations, labour market policies and welfare state reforms. Labour market reforms are said to 'have generally promoted developments in which the status and privileges of labour market insiders remain relatively well protected, with the flexibility necessary to stabilise the core being achieved at the expense of a growing number of workers in "atypical" or "nonstandard" employment relationships' (Palier and Thelen, 2010: 139). Standing (2011: 7) has been particularly harsh on unions in this context for almost exclusively representing standard workers 'with their pensions, paid holidays and enterprise benefits, often subsidised by the state'. These arguments have been used to legitimise austerity policies apparently aimed at reducing the privileges of employed insiders on grounds of opening up opportunities for the outsiders.

This insider/outsider theory has, however, been heavily criticised (e.g. Emmenegger, 2009). Tsakalotos (2004) provides a compelling counterargument that deregulation, even if initially benefitting outsiders at the expense of insiders, changes the balance of power towards employers and starts off a long-term process of regulatory change damaging to all workers. In short, the new situation is likely to be unstable, and there is a danger of a sliding scale.

There are also direct contradictions to the insider/outsider argument. Firstly, greater job churn does not necessarily favour outsiders. Although insiders may have to compete more with outsiders to keep their jobs, either directly as employers can hire or fire more easily or indirectly because of outsourcing or new low-cost competition, this increased competition will not necessarily reduce dualism. Many outsiders belong to groups vulnerable to discrimination, and if exposed to more frequent hiring competition, they may lose out because they have to overcome employer prejudice and stereotyping more frequently. Groups such as women, ethnic minorities, older workers and the disabled may be perceived to lack either competence, commitment or may simply be considered not 'fit' because of difference with the majority work group. Flexible labour markets may thus negatively affect the long-term employment prospects of certain groups. This problem was identified in the Danish 'flexicurity' system as the repeated job moves imply 'a continuous testing of the productivity of employees' with some workers 'gradually expelled from the labour market if they fail to meet the productivity criteria set by employers' (Madsen, 2002: 11).

Older workers are particularly vulnerable to redundancy on grounds of relative expense or productivity if firms do not want to train them in new technologies. Again, mere perceptions can drive these developments:

“With the shift to flexible labour systems, the relationship between productivity, age and probability of employment may be strengthened. It is usually accepted ... that labour productivity declines with age. This tends to result in ‘statistical discrimination’ against older workers in both recruitment and retention decisions” (Standing 1986: 337).

Companies’ failure to expend resources in updating skills might thus lead to long-term exclusion of older workers from employment, a contradictory development in a context of an ageing society that expects people to extend their working lives. This discrimination can kick in at a relatively young age, particularly for women where they may be discriminated against on aesthetic grounds (Loretto *et al.*, 2007; Jyrkinen and McKie, 2012). More frequent dismissals of older workers are also likely to increase welfare costs as older workers are much less likely than younger workers to be re-employed.<sup>12</sup> Moreover, other outsiders such as young workers may not be able to take advantage of this development as their lack of experience may still define them as outsiders.

Increased competition and reduced employment security also have some negative consequences for firms. High turnover labour markets not only lead to low training and few opportunities for promotion for workers but also to problems of employment management. Firms typically have to fill vacancies at all levels of the organisation with all the challenges this poses, particularly during an economic upturn when staff turnover may rise out of control (Cappelli, 2014 for the US and Ward *et al.*, 2001 for the UK). These considerations suggest policy ought to re-focus the insider/outsider debate away from reducing the privileges of insiders towards developing better access to ‘insider’ status for those in flexible and dead-end jobs.

### **Flexibility and welfare dependency**

The impact of flexibility in creating jobs and expanding chances for outsiders is expected to reduce welfare dependency by facilitating transitions from unemployment to employment<sup>13</sup> as labour market vacancies increase. However, the positive impact on welfare costs may be limited because of three related factors. First, easier job creation also means easier job destruction, and those moving off benefits into work in the UK are found to be often stuck in a low pay, no pay cycle between flexible jobs and unemployment (Thompson, 2015). Second, available jobs may not meet subsistence needs because of low pay or short or unstable hours. This problem, identified in the mid-1990s (Gregg *et al.*, 2012), led to the UK tax credit system being expanded both to incentivise claimants to leave full benefit dependency and prevent severe poverty. This links to the third problem that the more the state props up the living costs of those in work, the more employers may reduce their guarantees of hours and pay levels, relying on the government to step in to support their low paid employees. This is the old Speenhamland system (Deakin and Wilkinson, 2005), and the government has to some extent recognised this contradiction by raising employer obligations through a higher national minimum wage and using these higher wages to reduce the tax credit bill.

However, the UK’s new welfare benefits model, known as the Universal Credit system and being rolled out from 2015, creates new risks that employers may pass more of the costs of flexibility to the state. The new scheme combines in-work and out-of-work benefits

and thereby removes arbitrary working hours thresholds between the two systems. The current requirement of guaranteed 16 hours of work to claim tax credits has prevented the unemployed taking some of the flexible jobs available such as zero-hours contracts. The focus is on getting the unemployed back to work but the effect could be to encourage employers to offer more jobs without guaranteed hours as under Universal Credit employees can be more easily compensated for reduced hours. Possibly in anticipation of such problems, the government has in fact reinvented the notion of the full-time job for workers on low wages. This reinvention takes the form of requiring anyone earning below the weekly equivalent of 35 times the hourly national minimum wage to ask their employer for more hours of work or to seek new or additional work. This requirement is laid out in the claimant commitment that benefit recipients have to agree to. If they do not secure extra work and income, those hours not spent working for wage income within an assumed 35 hour week must be spent searching for more work, under Job Centre supervision. Thus, 35 hours is the normal expected effort from a low-wage worker whether it is in wage work or in searching for work. This norm also holds for the self-employed who are assumed to earn at least 35 times the hourly national minimum wage when determining their benefit entitlements and tax credits. Some variations are allowed for those with primary care responsibilities, as we discuss in the succeeding paragraphs, but there is a new norm of a 35-hour week for those entering employment at low-wage levels.

There are no such requirements on the employers' side. The UK, unlike some other European countries, does not have minimum lengths of shifts or require employment contracts to guarantee a minimum number of hours. Employers are free to reduce and vary hours without constraint; after a 2014 government consultation on zero-hours contracts, only very limited changes were introduced. The requirement for full-time labour force participation for claimants is thus combined with incentives (financial and motivational) for employers to use flexible employment forms. Flexible work may involve being available for work over a much longer period of time than actual paid working hours. This means achieving full-time paid working hours may be difficult, particularly if it involves working for multiple employers who may each require flexible availability over the week.

Low income and short hours jobs in the UK and elsewhere were initially designed as jobs for second income earners – women or young people – and have not provided anything close to minimum subsistence income.<sup>14</sup> However, income sharing in families is increasingly not available as a form of universal support because of more fragmented and complex family relationships, more unstable employment for main breadwinners and more single-parent households. In-work benefits were introduced to make work pay for people on means-tested unemployment benefits. However, the drastic cuts to Universal Credit in the July 2015 budget signal a move away from this policy as they largely recreate the position of the mid-1990s, before the New Labour government (1999–2010) expanded tax credits, where there are limited incentives to work for some groups, particularly lone parents. One estimate suggests lone parents may only be able to work 5 hours before facing clawbacks of benefits of over two-thirds for every pound earned (Finch, 2015). The current government appears to be aiming to reduce welfare dependency by relying more on the stick of benefit sanctions than the carrot that work actually pays.

### **Flexibility and public finances**

Flexibility is expected to boost the revenue and limit the expenditure side of public finances, by stimulating employment growth to increase tax revenue and reducing welfare support needs.



Fiscal sustainability depends on both controlling expenditure – like in the Nordic models, where high welfare benefits are combined with strong active labour market policies to reduce claimant numbers – and on guaranteeing a tax base to support social protection expenditure. This indicates how flexible labour markets may be less promising for public finances than expected for three reasons. Two were already discussed in the previous sections, namely, that flexible jobs may require governments to subsidise flexible work and that the short-term benefits of moving into work from benefits may be offset by the high risk of subsequent job loss. While initially people may cycle between low paid jobs and welfare dependency (Thompson, 2015), some may end up as long-term welfare dependants as the scarring effects of frequent unemployment kick in (Arulampalam, 2001). European comparative research also suggests that these scarring effects have long-term effects on job quality, reducing income opportunities even when workers are re-employed, and more so in the UK than in countries such as Austria and Denmark (Dieckhoff, 2011).

A third reason is that flexible jobs in the UK context may yield much lower tax revenues, with implications for the sustainability of public finances. This threat to the revenue side of public finances comes from several sources. First, wages may be lower and more insecure, thereby yielding lower tax revenues. Second, flexible jobs are less likely to provide revenue via employer national insurance contributions. Jobs that yield weekly earnings below a certain threshold do not require employee or employer national insurance contributions, and charges are only levied on the earnings above these thresholds. Therefore, any trend towards lower paid and part-time or zero-hours jobs will reduce the average contribution from the wage bill to national insurance. This is a strong subsidy to low-wage employers and an incentive towards low wage and short-hours jobs. The low tax take from minimum wage jobs in the UK is extreme compared with OECD countries: the UK's overall tax is fourth lowest after Mexico, Ireland and New Zealand, and the employer tax on minimum wage jobs is the lowest after Chile (OECD, 2015b: Figure 1.12). National insurance contributions paid by the self-employed are also very low because, unlike other countries, they are not expected to compensate for the lack of employer contributions (Social Security Advisory Committee, 2014). This exacerbates the loss to the Treasury from the recent rise in self-employment and encourages employers to make use of freelance labour at low costs without either side acting illegally; that is, the tax system is being avoided not evaded. Finally, tax revenues are also lowered by the political decision of the government to raise income tax thresholds. The commitment is to exempt anyone earning up to 30 times the hourly national minimum wage per week from income tax. This represents a huge revenue loss as raising the personal allowance has knock on effects through the tax system, benefitting higher tax earners more than the low paid. The costs of increasing the income tax personal allowance to £12,500 by 2020 from £10,600 in 2010 is estimated at £3.7 billion per annum,<sup>15</sup> most of the benefit flowing to higher rate taxpayers. Raising the national minimum wage to 60 per cent of median earnings by 2020 (estimated at around £9 per hour) implies a further significant rise to £14,040 per annum if those earning 30 times the minimum wage are excluded from income tax. The effects of the trend towards low-wage and insecure work combined with higher income tax thresholds are estimated to have led to a more than doubling of the number in employment not paying income tax from 1.9 million in 2006–2007 to an estimated 4.7 million in 2015–2016 and a near doubling in numbers not paying national insurance from 1.9 million to 3.5 million (Corlett *et al.*, 2014: Figure 1).

These tax revenue reductions may limit the UK government's ability in the future to support low paid workers through tax credits and other elements of the social wage. Moreover, taking a

large share of employees out of contributions to social protection may put too high a burden on those in standard jobs but not necessarily the highest paid. This could put the whole system of welfare support for the unemployed and low paid in jeopardy.

### **Flexibility and diversity**

Flexible labour markets are also expected to be better at accommodating workforce diversity by offering a range of contracts rather than requiring all to fit the standard of a full-time regular job. Diversity in workers' availability for and capacities to work is increasing; more have care responsibilities as more women work and households become more diverse, more young people are combining work with education, those with disabilities are being deemed fit to work even with reduced capacities and older workers are required to stay in the labour market because of rising pension ages even when their work capacity is declining. Employment arrangements need to become more diverse if the government is to achieve the aforementioned ambition of reducing the share of the population dependent on welfare.

There is some truth to the argument that the UK's flexible labour market allows carers to combine wage work and care work as most UK mothers work. This applies to 65 per cent of mothers in couples with a youngest child under three and over three quarters of mothers with older children work, with similar rates for lone parents with older children but a lower rate of 40 per cent when the youngest child is under three (ONS, 2013). Part-time employment is the dominant form: while the part-time share for all women in employment is 44 per cent, it is 55 per cent for mothers with dependent children (EHRC, 2013; Labour Force Survey 2011 data). This flexibility comes, however, at a cost of much lower pay and many fewer chances of promotion as employers still stereotype part-time workers as lacking commitment (for literature overview, see Grimshaw and Rubery, 2015). The outcome is the underdevelopment of female talent. The right to request to work flexibly and/or reduce hours in a pre-existing full-time job enables many of those undertaking care to retain their career jobs, although unlike in Sweden, the Netherlands and Germany (Hegewisch, 2009), there is no parallel right to request a return to full-time working. Moreover, one paradox of this policy is that the right to request to work flexibly only applies after someone works for 26 weeks with the same employer in a full-time job. The choice of flexible jobs available to those outside the employment system is thereby very restricted, typically to low-wage, dead-end, part-time jobs.

These problems are aggravated for workers that are dependent on welfare. Although flexible labour markets are held to facilitate parental sharing of care work, this flexibility is not extended within the welfare system to those on low incomes or unemployed. Policies for these parents are increasingly inconsistent: both partners in a workless household are now required to seek work in line with an 'everyone is a worker model', indicating the end of the family's right to choose one parent to be a full-time carer. Once one partner finds work, however, the UK's tax credit system provides strong disincentives for the other partner to find work, an outcome that is of marginal concern to the government as it prioritises main breadwinner employment (DWP, 2011). The traditional gender model is also reinforced by only allowing one parent to be designated a carer with the other partner required to accept work involving long and/or unsocial hours and, if necessary, commute for up to 3 hours a day.

Government policy also aims to increase the employment of two overlapping groups – older workers and those claiming disability benefits – through raising the retirement age and tightening fitness to work tests. The latter declare individuals fit to work even if they can only undertake some fragments of jobs. This leaves the disabled often in limbo, deemed fit to work

but without any new policies that require employers to adapt to workers' constrained capacities. The high availability of part-time jobs in the UK labour market, in principle, provides opportunities for those struggling with a full-time workload, but for the low paid in receipt of tax credits, this option is only available at the discretion of the job centre (the government agency responsible for checking the unemployed person's entitlement to benefits). As over half of part-time jobs in the private sector are paid within 20 per cent of the national minimum wage, many older workers seeking reduced hours are likely to be required to work for 35 hours under the Universal Credit rules.

These problems are evident in the figures. The overall placement rate for people referred to the Work Programme (the privatised programme for assisting the unemployed back into work) is just under a quarter but for those categorised as in need of support because of disability, it is only 10 per cent, falling to 5 per cent for those previously on incapacity benefit (CESI, 2015). Meanwhile the share of referrals who are in need of support increased from 3 per cent in 2011 to 25 per cent in 2014 (Work Programme Statistics September 2014). A cynic might suggest that the huge administrative and political effort involved in testing the disabled for fitness to work was aimed more at lowering benefits (as benefits are higher for those not deemed fit for work) and at providing a deterrent to 'shirkers' than at raising employment.

A policy to extend the workforce pool and facilitate accommodation to individual needs requires flexible employers who adjust jobs to workers and do not treat job characteristics as fixed (Deakin, 2009). However, UK employers' willingness to make adjustments already required under disability discrimination appears to be low (Hoque *et al.*, 2014). Without complementary policy to change employer practices, efforts at activating a larger workforce are likely to fail.

### **Flexibility and productivity**

A final important rationale for labour market flexibility is that it complements the radical change in the nature of business production. Whereas the 'old competition' model was about big business – meaning managerial hierarchy, vertical integration, Taylorist work organisation, uniform standards and long-lasting production runs – the 'new competition' involves continuous improvement, industrial restructuring, networked districts of firms and a multi-skilled workforce (Best, 1990). Roughly translated into employment policy, the idea is that the radical shift in production principles signals the collapse of old employment standards – especially job-for-life norms, standard working hours and collective wage negotiation. New forms of 'open innovation' in services, for example, suggest organisations may need to access specialised creative, technical and professional skills on a temporary, part-time or freelance basis in an effort to build 'outside-in knowledge' (Chesbrough, 2011). Well-known studies of Silicon Valley highlight companies' strategic use of temporary specialist knowledge as a core feature of successful inter-organisational networks (Benner, 2008).

While there is much for employment policy to learn from the latest thinking on changing business production, the focus has been limited to the conclusion that employers require flexible choice over employment forms. In the specific UK institutional context, this raises two potential contradictions for a policy goal of improving innovation and productivity: first, the negative interactions between non-standard employment forms and productivity performance are not considered and second, the advantages offered by the standard employment relationship in promoting flexible work organisation, worker commitment and motivation are overlooked.

Where competitive strategies are based on flexible employment forms, the risk is that employers neglect investments in training and HR practices that strengthen employee motivation and raise productivity. Cross-national comparative research suggests that the UK's deregulated labour market is the most likely among European countries (EU-15) to generate a 'lean' model of work organisation, described by teamwork, job rotation, relatively low worker autonomy, tight quantitative production rules and relatively high use of fixed-term employment (Holm and Lorenz, 2015: Table 3). It is less likely to generate employee commitment for which fair treatment and job security are critical ingredients. Other European countries (e.g. Denmark, Germany and Sweden) are more likely to generate 'discretionary learning' forms of work organisation with higher worker autonomy and input into decision-making (Holm and Lorenz, 2015). Without coordinated investment in training, the UK is entirely reliant on employers' in-house training programmes and career structures, but the risk of poaching among competitors makes it highly unlikely that these will be sufficient to generate higher value-added innovation. Consequently, employers tend to match their use of flexible employment with a strategic preference for hierarchical managerialist models, tight controls over the pace of work, limited worker autonomy and weak investment in worker competences.

Research evidence has also long confirmed the argument that employment flexibility negatively interacts with innovation and productivity. More than a decade ago, Michie and Sheehan (2003) commented on their survey of medium and large-sized manufacturing firms in the UK to warn of a significant negative association between the use of flexible employment and process innovation.

"The more innovative firms have been those that have passed up the use of these newly – or at least more readily – available 'flexible' labour practices, resulting from labour market deregulation, and instead have pursued the sort of functional flexibility associated not with short-term and temporary contracts but, on the contrary, with employment security...." (Michie and Sheehan, 2003: 136, 139).

More recently, Zhou *et al.* (2011) found that firms with higher shares of temporary contracts perform significantly worse in sales of 'innovative products', defined as first to market. They argue instead that 'functional flexibility on internal labour markets has advantages for the continuity of (organisational) learning and strengthens the historical memory of firms' (Zhou *et al.*, 2011: 960). The labour market flexibility strategy is therefore in contradiction with a policy goal of shifting out of low value-added business segments into higher productivity activities.

The second contradiction is that flexible employment displaces various advantages that the SER offers for productivity performance. Following the theoretical analyses of Coase and Simon, Marsden (1999) has cogently argued that the standard, open-ended employment contract provides the necessary loose structure, a flexible 'zone of acceptance', within which employer and employee can act to maximise joint benefit. It protects against employer-led flexibility, which carries the risk of increased exploitation by removing worker discretion over time at work, tasks at work and effort. It also avoids the production inefficiencies caused by having to codify all the precise tasks that make up a job. As a consequence, broad job definitions and the willingness of employees to operationalise their tacit knowledge for an agreed wage are more likely to embed sustainable performance improvements at a workplace than an HRM approach focused on negotiating a series of sales contracts for work tasks, as currently applies to temporary, zero hours or freelance contracts.

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## CONCLUSIONS

Flexible employment takes multiple forms and has multiple implications, but policymakers still laud the apparently general benefits of flexible labour markets. This rhetoric glosses over the distinction between employer-oriented and worker-oriented flexibility and hides the costs to the state and families that stem from freeing employers from responsibilities to guarantee wage income, employment continuity and working hours and provide social contributions. This freedom from responsibility may be consistent with neoliberal perspectives on market deregulation but is at odds with even a residual welfare state responsibility for social reproduction. In the specific UK context, the costs of this flexibility and the resulting rise in low-wage employment have become manifest in rising tax credit bills to which the government has responded by restricting employers' flexibility with respect to hourly pay. However, it has still not grappled with employers' freedom to offer insecure and variable hours employment. The UK government cannot manage its welfare obligation unless people are reasonably remunerated, but flexibility policies shift all responsibility onto welfare claimants who are required to find full-time employment without any parallel obligations on employers to provide full-time employment or even to enable multiple job-holding. Far from being a model for Europe to follow, these contradictions suggest that retaining and developing some guarantees with respect to hours of work and income are essential for preserving the European social model.

Evidence that flexibility facilitates new life choices is also mixed. Opportunities for part-time and other types of worker-oriented flexibility are allowing more mothers in the UK to retain their career jobs or to re-enter employment. However, to earn the right to request flexible adjustments, workers must be employed for 6 months in a standard full-time job and arrangements cannot be transferred to another employer. This means that part-time jobs for 'outsiders' may still be low paid and dead-end so more needs to be acquired to allow reduced hours working, also for new recruits throughout the jobs hierarchy, while also providing opportunities to change to full-time work. Flexibility as currently practised may be reinforcing, as much as changing, the gender division of labour particularly for households claiming welfare benefits, as only one parent can be named as having care responsibilities. Furthermore, the other parent is required to accept work whenever and wherever, in line with an employer-oriented flexible labour market. These requirements take the UK further away from the joint carer/joint earner model, which is compatible with changing gender roles and life styles.

The number of people in the workforce who have specific constraints on their ability to work is rapidly increasing, either because of care responsibilities or reduced capacities, but the UK has introduced no new policies to make employers adjust their jobs to workers. Furthermore, the notion that competition is good for inclusion must be questioned. Vulnerable groups are at greater risk of exclusion if they have to constantly compete for short-term work. In particular, older workers may face problems of discrimination in competition for new jobs if they lose the protection of insider employment. To be serious about extending the working life, older workers need to remain in sheltered segments rather than be exposed to competition for jobs across all age ranges.

Finally, flexible labour markets as developed in the UK may also be undermining two fundamental dimensions to a well-functioning economy. First, it may be reducing rather than contributing to long-term productivity potential, by substituting a short-term disposable labour model for a longer term partnership and investment approach. Second, it may be undermining the economy's fiscal base. This is because of a political choice rather than an essential aspect of flexible employment, but the government has chosen to incentivise

employers to create flexible jobs and to compensate workers for the low wages by increasingly taking both out of the tax and contribution net. This has major implications for revenue collection because of the ripple effects of higher income tax thresholds for all taxpayers, but even more worrying is the rhetoric that promotes the exclusion of workers from making contributions but goes against principles of collective insurance and solidarity. This puts the long-term funding of even a residual welfare system in jeopardy. Far from a generator of economic miracles for the rest of Europe to emulate, it is more appropriate to regard flexibility as developed in the UK as a Trojan horse for future economic ills.

## Notes

1. <http://www.bbc.co.uk/news/32350391>, 17 April 2015.
2. <http://www.oecd.org/unitedkingdom/presentation-of-the-economic-survey-of-the-united-kingdom-2015.htm>
3. *The Independent*, 17 April 2015.
4. Employers were partially compensated by a reduced corporation tax.
5. These are only stylised indications of the relative importance of the flexibility as provided by each employment type and not related to the latter's quantitative importance in the labour market.
6. There could be incidences where someone takes a job in the left-hand quadrant because there is a 'coincidence of wants'; that is, employer and employee preferences match but the situation may be unstable if employer needs change, in particular given the prevalent power imbalances between employers and employees in these sections of the labour market.
7. See ACAS advice, 'Changes to TUPE', available at: [www.acas.org.uk](http://www.acas.org.uk).
8. ONS data accessed from <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/october-2015/dataset--labour-market-statistics.html>
9. All data trends refer to the period January–April 2010 to April–May 2014.
10. <http://www.telegraph.co.uk/finance/economics/11359353/Real-wage-growth-gathers-pace-for-first-time-since-2010.html>
11. <https://www.tuc.org.uk/economic-issues/labour-market-and-economic-reports/labour-market/economic-analysis/more-two-thirds>
12. For example, Work Programme data show job outcomes for referred unemployed drop from 18 per cent for the 25–34 years age group to 10 per cent for the 55–59 years and 5 per cent for 60+ years (Foster *et al.*, 2014: fig. 11).
13. <https://www.gov.uk/government/speeches/jobs-and-welfare-reform-getting-britain-working>, speech by Ian Duncan Smith, 7 April 2014.
14. For 2016, the Joseph Rowntree Foundation estimates that single people need to earn £17,000, which even on a 40-hour week implies a wage of over £8 per hour – and couples with two children need to earn £20,300 each [http://www.jrf.org.uk/publications/minimum-income-standard-2014?gclid=Cj0KEQjw3auuBRDj1LnQyLjy-4sBEiQAKPU\\_vW0QjE2guX2zRTy-b26G7YyJWI4oyIT7Ee6v0Q\\_rY64aAiYt8P8HAQ](http://www.jrf.org.uk/publications/minimum-income-standard-2014?gclid=Cj0KEQjw3auuBRDj1LnQyLjy-4sBEiQAKPU_vW0QjE2guX2zRTy-b26G7YyJWI4oyIT7Ee6v0Q_rY64aAiYt8P8HAQ).
15. 'Tory "tax free minimum wage" plans to cost £3.7bn' – FT.com, Vanessa Houlder, 14 April 2015.

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