

# SOME REFLECTIONS ON FLEXICURITY-THE EUROPEAN APPROACH TO LABOUR MARKET POLICY

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*The notion of “flexicurity” promises to overcome the tensions between the labour market flexibility on the one hand and social security on the other hand, by offering “the best of both worlds”. In this review the development of the concept will be set against the background of changed economic circumstances in the last two decades. Flexicurity is seen as a way to preserve the European Social Model while maintaining and improving the competitiveness of the European Union. It is argued that, in the context of globalisation and technological change which place greater demands on business to adapt continuously, high levels of employment security will not depend only on protection of workers’ specific job, but mainly on the means for workers to stay on the job market, manage smooth transitions between jobs and make progress in their careers. At the end of the day, the aim of flexicurity policies should be to ensure the welfare and well-being of our societies and all their members, now and in the future. It can therefore be argued that flexicurity is ultimately about security and sustainability. At the same time, the European ideas and principles on flexicurity first and foremost need to be seen as a framework which may offer inspiration and guidance to Member States to review and improve their labour markets in terms of establishing a sound balance between flexibility and security. Member States can and should come up with their tailor-made policies and regulations that are geared towards their specific history, starting-position and political, institutional and cultural context. As quasi prototypes of flexicurity, policies pursued particularly in Denmark and the Netherlands have been portrayed as having successfully achieved new combinations between (greater) labour market flexibility without compromising social protection. At this point in time, it remains to be seen whether flexicurity will be more than a buzzword which has outlived its temporary political purpose or an enduring component of particularly European approach of combining employment and social policies. The current paper is realized in the doctoral programme entitled “PhD in economics at the standards of European knowledge-DoEsEc”, scientific coordinator Prof. PhD. Gabriela Drăgan, institution the Academy of Economic Studies Bucharest, Faculty of International Business and Economics, period of research 2009-2012.*

*Keywords: flexicurity, labour market policy, unemployment benefits, employment protection, European Union.*

*JEL classification: J08.*

## **I. Introduction**

In recent decades, European labour markets have been characterised as lacking sufficient flexibility for a new and more internationalized economy and a more dynamic nature of labour demand. At the same time, traditional social protection programmes, largely modelled on male dominated, full-time and continuous career patterns, have become both increasingly inadequate for a growing section of employees engaged in non-standard types of employment and more difficult to sustain financially due to economic and demographic pressures. Clearly, a tension has arisen between demands for greater labour market flexibility on the one hand and the need to provide adequate levels of social protection for workers and their families on the other. In this context, much of the literature on labour markets has emphasized the existence of a potential trade-off between flexibility and security.

The notion of “flexicurity” indicates a carefully balanced combination of flexibility where it matters for job creation and protection where it is needed for social security. Flexicurity is based on the co-ordination of employment and social policies. Employment policies must create the best conditions for job growth, while social policies must guarantee acceptable levels of economic and social security to all, including those who enter deregulated labour markets. Some countries, notably Denmark and the Netherlands, have been regarded as models of how labour markets can be made more dynamic without compromising social protection. Recently, the policy theme has also been prominent in several EU activities, most notably the European Employment Strategy.

## **II. The concept of flexicurity**

From the perspective of neo-liberal theory, persistent levels of unemployment and widespread long-term unemployment in many European countries underline the need for greater flexibilization and the deregulation of labour markets. At the same time societal trends of individualization and pluralization of lifestyles have questioned whether the “standard employment contract” should remain a reference point within European welfare states. In recent decades, “atypical” forms of labour market participation have gained weight particularly in countries with restrictive employment legislation. However, while this trend might have enhanced the flexibility of firms, it has arguably weakened the degree of employment and income security for many, as well as promoted segmented labour markets with a coexistence of well protected core sectors and relatively unprotected sectors “at the margin”. As a consequence, greater flexibility needs to be reconciled with satisfactory levels of security, which in turn is also a precondition for the improvement of skills and a more sustainable integration into the labour market. In short, ongoing labour market reform would need to be accompanied with appropriate types of welfare state reform.

However, the European Commission (2006) has criticized that often “policies aim to increase either flexibility for enterprises or security for workers; as a result, they neutralise or contradict each other” (European Commission 2006: 5). Flexicurity principles might be seen as a response to this one-sided approach, satisfying the needs of both employers and workers. The concept rests on the assumption that flexibility and security are not contradictory, but complementary.

The idea of flexicurity dates back to developments and debates in two European countries in particular, i.e. Denmark and the Netherlands. According to some observers, the concept of flexicurity was first used by the Dutch sociologist Hans Adriaansens in the mid-1990s in connection with the Dutch Flexibility and Security Act and the Act concerning the Allocation of Workers via Intermediaries (Wilthagen and Tros 2004: 167). Arguably, the neologism was picked up by academics in the Netherlands (e.g. Wilthagen, 1998) and subsequently in other European countries, such as Denmark, Belgium and Germany, before reaching the European Commission’s agenda, as well as other European actors (Keune and Jepsen, 2006).

There is no universally agreed definition of flexicurity. Some authors define the concept rather broadly, for example as a policy aimed at “achieving a new balance between flexibility and security” (Klammer and Tillmann 2001: 15) or as “secured flexible employment” by reconciling labour market flexibility with measures to counter growing social exclusion and the emergence of a class of working poor (Ferrera, Hemerijck and Rhodes 2001: 120). The European Commission defines flexicurity simply as “an integrated strategy to enhance, at the same time, flexibility and security in the labour market” (European Commission 2006: 5).

The absence of a common definition is underlined also by the fact that at times flexicurity has been used to describe a type of public policy and at other times as a condition of a labour market, even by the same authors. For example, Wilthagen and Rogowski (2002) regard flexicurity as a deliberative and coordinated strategy for weaker labour market groups :

“A policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organisation and labour relations on the one hand, and to enhance security-employment security and social security-notably for weaker groups in and outside the labour market, on the other hand”. (Wilthagen and Rogowski 2002: 250).

On the other hand, Wilthagen and Tros (2004) suggest a more institutional definition:

“Flexicurity is (1) a degree of job, employment, income and ‘combination’ security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows for enduring and high quality labour market participation and social inclusion, while at the same time providing (2) a degree of numerical (both external and internal), functional and wage flexibility that allows for labour markets’ (and individual companies’) timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity”. (Wilthagen and Tros 2004: 170)

Turning to its components, four different types of flexibility and security have been identified respectively:

- External-numerical flexibility: the ease of hiring and firing workers and the use of flexible forms of labour contracts.
- Internal-numerical flexibility: the ability of companies to meet market fluctuations (e.g. via over-time, flexi-time, part time, temporary work, casual work or sub-contracting).
- Functional flexibility: the ability of firms to adjust and deploy the skills of their employees to match changing working task requirements.
- Payment or wage flexibility: the ability to introduce variable pay based on performance or results. (Wilthagen and Tros 2003, 2004).

Similar to types of flexibility, four different forms of security are usually presented in the literature:

- Job security: the certainty of retaining a specific job (with the same employer), e.g. via employment protection legislation.
- Employment security: the certainty of remaining in paid work (but not necessarily in the same job or with the same employer), e.g. via training and education (and high levels of employment).
- Income security: the certainty of receiving adequate and stable levels of income in the event that paid work is interrupted or terminated.
- Combination security: the reliance on being able to combine work with other-notably family-responsibilities and commitments, often discussed under the heading of “work-life balance”. (Wilthagen and Tros 2003, 2004).

Flexicurity policies can be analysed as types of combinations between these different forms of flexibility and security, which might involve individual workers, groups of workers, or certain sectors or the economy as a whole.

### **III. Diverse labour market problems, policy components and obstacles to more flexicurity**

According to the European Expert Group on Flexicurity, one element for the implementation and success of flexicurity policy is a supportive and productive social dialogue between the social partners and public authorities. Recognizing differences in labour market conditions and challenges, the Expert Group is less prescriptive in other respects, offering alternative pathways to flexicurity (see also European Commission 2007: 3). These are:

- Tackling contractual segmentation.
- Developing flexicurity in the workplace and offering transition security.
- Tackling skills and opportunity gaps among the workforce.
- Improving opportunities for benefit recipients and informally employed workers.

These different security pathways respond to different problems that are visible, to differing degrees, in European labour markets. For example, some countries might be faced with the

problem of segmented labour markets, characterized by a large share of “outsiders” lacking security and limited opportunity to make transitions to more permanent and secure jobs due to the impact of strict employment regulation. Such a situation might be regarded as typical for Southern European countries, and the first pathway seems more relevant there. Another challenge might be labour markets with a large share of workers with high levels of job security, especially within large industrial firms, but few opportunities to find new employment in the event of redundancy. Labour flexibility is thus generally confined to the firm level, labour turnover fairly low and long-term unemployment typically high. Such a challenge might be most commonly found in some continental Western European countries, and the second flexicurity pathway is intended to offer a response.

The third pathway responds to the challenge of flexible labour markets with a large share of low-skilled workers and a clear segmentation between low-paid and high-paid workers. Accordingly raising job quality in the low-skilled sector and tackling low productivity rates are the major policy priorities. A country which might fit this description is the United Kingdom. Finally, the fourth pathway seems particularly relevant to the situation of Central and Eastern European transition countries, where high proportions of non-active working age people receive long-term benefits and face few activation incentives. This is coupled with problems of low productivity and high numbers of workers employed in the informal sector.

The European Commission (2007) proposes to address these particular challenges by focusing on four policy domains:

- Flexible and reliable employment protection arrangements.
- Comprehensive lifelong learning strategies.
- Effective active labour market policies.
- Modern social security systems. (European Commission 2007: 5).

Given that these four areas are often regarded as the core components of flexicurity policy, I will briefly review these in turn.

According to analytical evidence, strict employment protection appears to reduce the numbers of dismissals, but hampers the transition from unemployment to work (OECD 2006: 34). Arguably it thus contributes to divisions between labour market insiders and outsiders, particularly where regulations differentiate between regular and other forms of employment contracts. Boeri et al. (2003) showed that only few countries reduced the strictness of employment protection for regular workers in recent years, while the majority of changes in employment protection took place at the margin (Boeri et al 2003:16). Deregulation at the margin of the labour market tends to favour the creation of segmented labour markets in which employees with atypical contracts carry the burden of adjustment to economic shocks. This has led to more precarious employment, a lack of adequate provision of training for those with atypical contracts, and negative impacts on productivity.

Clearly, the effect of employment protection legislation is contested. Those in favour of liberalization have argued that stringent regulation tends to encourage less dynamic labour markets, worsening the employment prospects of women, youths and older workers. However, whether employment protection reduces labour turnover and prolongs unemployment is debatable. For example, provided that severance payments and advance notice of termination are chosen optimally, Pissarides (2001) argues that unemployment insurance does not hamper job creation (Pissarides 2001: 140). Moreover, the positive effects of employment protection, such as providing incentives to enterprises to invest in training, promoting loyalty and raising productivity of employees, has been widely acknowledged (European Commission 2007: 6).

Second, lifelong learning has become another buzzword within the current EU debate on flexicurity. High participation in lifelong learning is positively associated with high employment and low long-term unemployment. Encouraging flexible labour markets and ensuring high levels of security will only be effective if workers are given the means to adapt to change and to make

progress in their career. Ongoing education and training is seen as the key to employability and adaptability throughout an individual's life course, thereby also contributing to the high productivity economic model the EU aspires to. Investment in human resources over the life course and strategies of so-called active ageing are strongly promoted by the EU as a response to rapid technological change and innovation in the face of demographic pressure. It is seen as increasing both the competitiveness of firms and the long term employability of workers (European Commission 2007: 10).

Third, unemployment benefit systems are now more readily connected with active labour market programmes. Depending on their design, unemployment benefits are able to protect more effectively against labour market risks than employment protection, offsetting negative income consequences during job changes. Their arguably negative effects on the intensity of job search activities is regarded to be counteracted by efficient activation strategies that coordinate unemployment benefits with active labour market policies. Finally, supporting transitions between jobs as well as from unemployment to jobs, active labour market schemes are regarded as essential for achieving a balance between flexibility and employment security while reducing the risk of labour market segmentation and lowering aggregate unemployment (European Commission 2006:17; OECD 2006: 12). Closely connected are policies aimed at customizing career advice and supporting equal opportunities, e.g. by improving the so-called "work-life balance" (European Commission 2006: 17).

The flexicurity debate emphasizes the interactions between these policies and institutions; flexicurity might be seen as an integrated approach aiming to optimise the combination between these four components.

#### **IV. Concluding remarks**

Despite attempts to arrive at a more precise definition, the review has shown that the concept of flexicurity has remained ambiguous. To some extent this might not be surprising given its multi-dimensional character and the emphasis on particular policy components in some countries but not in others. In addition, flexicurity has certainly a buzzword character with apparently little regard for policies which have been practiced for some time, such as active labour market policies and lifelong learning programmes. Adopting a critical, if not cynical approach, it could be argued that to some extent flexicurity has replaced the previous EU-discourse on activation and is likely to be replaced by the next fashionable and politically useful concept before long.

Clearly, for analytical purposes the concept of flexicurity needs to be specified in order to be employed in a meaningful way. However, its vagueness might have political advantages, especially at an EU discourse level, making it acceptable to a large number of actors. Yet, while its openness makes the idea of flexicurity easy to disperse to EU Member States in a sort of "pick-and-choose" approach, there is a risk of losing the crucial emphasis put on the simultaneousness of flexibility and security. Thus, many observers might be forgiven to suspect the term to be little more than an instrument for an old agenda aimed at making labour markets more flexible and curtailing employees' rights. At this point in time, it remains to be seen whether flexicurity will be more than a buzzword which has outlived its temporary political purpose or an enduring component of particularly European approach of combining employment and social policies.

#### **V. Acknowledgement**

This article is a result of the project POSDRU/88/1.5./S/55287 "Doctoral Programme in Economics at European Knowledge Standards". This project is cofunded by European Social Fund through the Sectorial Operational Programme for Human Resources Development 2007-

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