

Flexicurity in Europe
A short note on moving forward

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1. Introduction

In recent years, a number of developments have intensified competitive pressures and increased the pace of structural change in many economies. Globalization (trade, foreign direct investment and migration) and technological change is exposing larger and larger shares of national economies to intense competition. Firms have therefore to adjust frequently their operations and their labour force to meet fluctuations in demand and progress in productivity. This need for more flexible labour markets has led to a general deregulation agenda, which in Europe crystallized very much over the stringency of employment protection legislation (EPL) and in particular the need for providing more flexible rules for the so-called “atypical” forms of employment (e.g. fixed-term, part-time, temporary work). The flexibilization of employment relationship, the increasing segmentation of the labour markets, as well as the lack of prospects for long-term unemployed led to a general feeling of labour market insecurity in Europe. At the same time, the considerable ageing of European societies, together with relatively low employment rates put strong financial constraints on potential Welfare States responses. In this context, flexicurity, –the contraction of flexibility and security- has generated a formidable political interest in providing an answer to the dilemma of reconciling firms’ quest for flexibility with workers interests in labour market security. The main idea of the flexicurity concept is that flexibility and security are not contradictory but mutually supportive. Flexicurity can be observed in national governance system, such as the Netherlands where the term originally was first coined to describe a Law on temporary agency work¹. The concept became even more popular when describing the Danish labour market model as a “golden triangle” of flexible hiring and firing rules, generous income security and active labour market programmes². Since both countries cumulated a well known tradition of balancing the requirements of flexibility and income security with particularly good labour market outcomes, they came under close scrutiny by academics, international organizations and policy-makers: international governance

¹ Wet Flexibiliteit en Zekerheid (1999), that provides prospects of permanent employment to temporary agency workers after 2 years of temping, and thus links employment security with flexible assignments of staff.

² Madsen, P. K. (2003)

system, such as the International Labour Office (ILO) and the European Union (EU) also embraced the concept³.

It is interesting to note that the popularity of the concept stems somehow from its ambiguity which, on the one hand, leaves room for an ambitious political agenda, but on the other hand, for an instrumentalization for political interest of every kind. The lack of well established definition of flexicurity, as well as the lack of its concretization may however reduce the concept to an abstract discourse. This short note attempts to provide some insights for two challenging aspects of flexicurity, namely its conceptualization and its operationalization. Reference is made to a project launched in 2002 by the ILO in Central and Eastern Europe, for enhancing flexicurity in the region.

In spite of intensive discussions there exists no official definition of flexicurity, so the understanding of flexicurity relates both to a conceptual framework and to a policy strategy. The first definition has been introduced by Wilthagen (2001) as “*a policy strategy that attempts, synchronically and in a deliberate way to enhance the flexibility of labour markets, work organization and labour relations on the one hand, and to enhance security –employment security and social security- notably for weak groups in and outside the labour market on the other hand*”. The OECD (2004) has defined flexicurity as a system based on a specific trade-off, namely a weak employment protection legislation, but high social protection providing income security and active employment policy (typically the Danish system). The ILO also devoted attention and launched research on flexicurity in 2000, but never established any institutionalized definition⁴. The European Commission, in its Common principles defined flexicurity as “*an integrated strategy to enhance, at the same time, flexibility and security in the labour market*. Furthermore, flexicurity is sometimes understood as an end – in which case all countries would desire to move towards

³ At the Lisbon Summit of 2000 the EU had already referred to this concept and after the meeting in Villach in January became a topical theme in the European Commission. It is now at the core of the European Commission initiatives, with two important documents calling for flexicurity approach to labour market reforms, namely: the *Green Paper* (2006b) and *Towards common Principles of Flexicurity: More and better Jobs through flexibility and Security* (2007)

⁴ The conclusions of the 7th European Regional Meeting held in 2005 on the topic “encourage the ILO to pursue tripartite consultations on flexibility and security and facilitate the exchange of good practices but also remind that this approach has to be context-specific”.

flexicurity — and not as a means; however, in international governance system such as the ILO and the EU, flexicurity is part of an overall strategy for the Lisbon Agenda (EU) and for Decent Work (ILO) (Auer, 2008): clearly, the policy packages needed for continuing success in labour market reforms along the flexicurity principles in terms of employment, training, social protection and social dialogue could be a tremendous support for the ILO agendas, in particular decent work and the Global Employment Agenda.

2. Balancing flexibility and security in Central and Eastern Europe- the experience of the Flexicurity ILO project

As pointed above, labour market flexibility in its various forms has, in the wake of global changes, increased in most regions of the world while employment and social security has often deteriorated or not sufficiently followed the development of the labour markets in order to ensure adequate employment and income security for workers. In Central and Eastern European countries, economic and social reforms launched since the beginning of the 1990s have been directed towards facilitating the adjustment of the enterprise sector to the challenges of international competition; this has brought about significant labour market deregulation. Previous strong legal protection of workers against termination of their employment has gradually been weakened while newly established or restructured labour market institutions have provided laid-off workers with income support during unemployment and assistance with re-employment, including access to programmes to improve their employment prospects if necessary. While initially income support was quite generous, accelerating unemployment as a result of the deep transition crisis forced policy-makers to reduce it in the hope that this would contribute towards faster re-employment of jobseekers. In the early 2000s, after twelve years of transition, labour markets of Central and Eastern Europe were still displaying poor labour market outcomes: low and declining labour market participation rates, low employment rates, high persistent unemployment rates in some countries (Poland, Croatia, etc), high shares of long-term unemployment rates and increasing ratio of the youth to average unemployment. Thus, the “pure flexibility” policy that was promoted — through pressures from international financial institutions to amend the labour legislation — in

the region as the main and sole alternative to best transform labour markets in this region did not work, leading even in some cases to rather adverse effects on employment and labour reallocation: many workers, for example, were hesitant to quit their jobs voluntarily, even in periods of economic recovery, because of the weak labour market institutional and policy setting and the resulting perception of job insecurity⁵ (Cazes and Nesporova, 2003; 2007; World-bank, 2005). Clearly, the liberalization of the employment protection legislation in Central and Eastern Europe, was not adequately compensated by social protection, since the unemployment insurance became as well less generous and active labour market policies were under-developed.

In that context, the ILO advocated in the Central and Eastern Europe an alternative policy to pure deregulation through its flexicurity project. It argued that innovative policy options supporting higher flexibility for firms while ensuring income and broader social security to workers were feasible and desirable. The ILO was not systematically against labour market flexibilization in the region, but for a more balance policy, which would allow some flexibilization through security and effective policies to protect labour market transitions . The project⁶ was launched in the region in 2002. At that time, flexicurity was neither a well known concept nor a political celebrity. In a first stage, it was thus critical to *raise awareness* on the necessary balance of interests and enhance a general understanding of the flexicurity approach (in insisting on the diversity of the models, since the Danish model was not a “jacket that may not suit all sizes”). Another important component of the project was the publication of flexicurity country studies elaborated by national experts with involvement of the social partners from the very beginning of the drafting process. These reports have been then extensively discussed during national tripartite seminars. This combination of research and advocacy among the key stakeholders of labour market policy makers required important *capacity building* of the social

⁵ This pattern contrasts with economically advanced countries where labour turnover (all moves in and out employment) typically accelerates with economic growth: in this period, enterprise start-ups and expansions create new jobs, attracting newcomers to the labour market and increasing the hiring of unemployed job seekers. At the same time, though dismissals for economic reasons decline, the growing number of job opportunities encourages more people to change their jobs *voluntarily* (Boeri 1995; ILO, 1996).

⁶ Countries selected for the project that run from 2002-2005 are: Bulgaria, Hungary, Lithuania and Poland.

partners⁷, since collective bargaining and social dialogue should be at the foundation of flexicurity arrangements. It therefore requires expertise development, negotiation skills and political will. Bipartite social dialogue and collective bargaining are very important tools in identifying the possible options affordable for public social funds. The issue of “who bears the costs of flexicurity system?” is probably one of the most challenging one and would require analytical and empirical work. *Facilitating general agreements* was another pillar of the project since flexicurity may require compromises from the stakeholders. As some trade-offs may be more difficult than others, the ILO acted as facilitator during the national tripartite seminars to identify the acceptable balance of interests.

To summarize, one could say that the flexicurity approach, while unknown in Central and Eastern Europe at the early 2000s, immediately generated interest of all stakeholders, and social partners in particular. It brought about an analytical framework which proved extremely relevant for the region. In pointing the necessity to capture the complexity of the labour market institutional settings and their interactions to rightly assess the degree of job flexibility and security, flexicurity opened a comprehensive platform of discussion to policies makers and social partners; it has also offered alternative to the pure deregulation agenda in arguing that wider policy choices were possible within a given macro-economic, institutional and political context. These choices are based on various combinations (tradeoffs or/and complementarities) of the different components of the employment and social protection systems, which need to be jointly identified and negotiated to ensure a balance between labour market flexibility and job security. However, since most of these countries had already their own reforms agenda (National Employment Action Plan, Joint assessment papers, etc.) it was important to underline the convergence of the various agenda. While several steps were thus undertaken for enhancing flexicurity in CEE, the balance is not there. With the accession of most Central and Eastern Europe countries to the EU, one may now call for proper concretization of flexicurity strategy in the region.

⁷ The project also comprised several training workshops for social partners to help them in the formulation of policy proposals based on strong analytical arguments.

3. From concept to practices (or how to make flexicurity work at the national level?)

The objective of this section is to reflect on what could be defined as a roadmap for putting flexicurity into practice. The recent attempt of the EU to define “flexicurity pathways” in the European Union⁸ reveals the burning need for moving now towards operational steps. With this report, the Commission rightly emphasises the diversity of policy options, but also the dynamic dimension of flexicurity. As a process, flexicurity needs a specification of the starting conditions — the macro-economic context and institutional settings—, an explicit definition of the objective⁹; as well as the way to achieve it under given constraints such as financing welfare systems, weak social partners, etc. Furthermore, it means constant fine tuning by the main stakeholders since most parameters of labour market policies and institutions as well as political interest of all sides are likely to evolve over time. In a nutshell, the trajectories have to be defined: from where? to what? and how?.

3.1. Macro-economic framework and preconditions

Given the popularity of the flexicurity concept, it is important to recall what flexicurity can achieve and what it can not. Flexicurity is about labour market institutions and policies. As such it can improve labour market functioning but can not create jobs in the absence of its positive interactions with the macro-economy. It is thus critical to link-up the flexicurity discussion with the macro economic level: while flexicurity is raising the whole issue of defining the forms of regulations that should accompany evolving labour markets, sound macro economics policies, efficient wage policies, education and other macro-policy are fundamental to progress towards full and productive employment. Thus the articulation should go in both directions, that is to assess how dependant would flexicurity be on successful macro economic policies; but also define the potential macro-benefits of a well functioning flexicurity system. As mentioned before, Scandinavian countries display well balancing systems together

⁸ See European Expert Group on Flexicurity, « Flexicurity Pathways : Turning hurdles into stepping-stones”, published on 27 June 2007. See also Wilthagen (March 2008), the rapporteur of this Expert Group.

⁹ Which is far from being clear-cut: for example debate is not settled whether or not the objective would be to bring a maximum of individuals towards permanent full time employment.

with remarkable economic and social outcomes. The extent to which these performances would be due to the institutional package *a la flexicurity* would need further empirical investigation.

Secondly, an assessment of the skill level of the workforce and the main existing national labour market institutions, such as the unemployment benefits schemes, the employment protection legislation, the wage setting institutions, the active labour market programmes and their interactions, is indispensable. This will provide a clear picture of the starting conditions to the policy makers and the social partners and allow them to choose among the possible combinations (trade-offs or complementarities) of the different pillars of the employment and social protection systems. Through this initial assessment, some countries could actually already be qualified as flexicurity ones¹⁰, while others may rather identify the missing or weak elements for having proper flexicurity arrangements.

3.2. Establish the process and the role of social dialogue

Once the national framework has been characterized in terms of historical and institutional preconditions, it is necessary to fix an agenda, define key milestones and targets, as well as a set of indicators for operational control. The involvement of social partners at all these different stages is essential for getting proper commitment. By its very nature, the flexicurity approach opens a platform for discussing, enhancing collective agreements and choosing among the various combinations available. Since the viability of these policy options is largely dependent on the willingness and the ability of social partners to define through tripartite and bipartite dialogue the satisfactory (or acceptable) balance among the various components of the institutional and policy package, it is important to provide them with a meaningful role to engage in setting up the flexicurity toolkit and to constantly adjust through dialogue and negotiations at the various levels to the high labour market dynamics. By explicit addressing of the interests of both employers and workers in the shaping of different

¹⁰ And here, flexicurity is rather seen as an analytical framework. For example, before 2002, Denmark was not fully aware to be a flexicurity model!

policies, the flexicurity approach is not only acknowledging the role for social dialogue, but its indispensability.

3.3. Need for operational control

Real incentives for supporting the flexicurity agenda can emerge from all stakeholders if the process gets proper operational control and empirical feedback: it was said that flexicurity is a policy strategy with no map, navigation instruments or even a compass¹¹. While several efforts have been made by the EU to progress along these lines, some gaps remain that should be filled in, in particular regarding the choice of statistics and composite indicators: comparable, relevant and timely indicators are crucial for formulating, monitoring and evaluating flexicurity policies. The EU provides for example draft indicators in the annex to the Commission's Communication on Flexicurity. However the issue of what should be measured and how would require a rigorous definition and a quantitative characterization of the several types of flexibility and the several types of security. With their flexicurity matrix, Wilthagen and Tros¹² (2004) have tried to capture the multi-dimensions of both flexibility and security and their potential combinations. The matrix is often presented as a heuristic tool that is used to identify different policies or national configurations of flexibility and security (see annex). While it is a comprehensive and analytical tool, the matrix shows the difficulty of determining appropriate and practical instruments for monitoring and assessing flexicurity; in particular, the matrix points to the difficulty of articulating various levels of analysis and implementation as efforts to enhance flexibility and security can take place at all levels: country, sector, local, individual. Participating in life-long learning is an individual choice/effort to increase employability thus labour market security; however, public policies encouraging people to participate in life long learning relate to country level efforts. Additional aspects regarding the set of indicators refer to the quality of the indicators (in particular for assessing the strictness of the labour legislation¹³), the number of indicators to be considered, etc.

¹¹ A. Tangian, 2006, Hans Bockler Foundation, paper at the expert meeting on flexicurity strategies and the implications of their adoption at the EU level, Lisbon, 2006 :

¹² Wilthagen and Tros, 2004 : the concept of flexicurity : a new approach to regulating employment and labour markets, *Transfer*, 10 (2).

¹³ See: for example Bertola & alii (2000) ;

Another critical part of the monitoring exercise consists in the empirical feedback. The exercise is however delicate and raises the question of which outcomes should be looked at? What is the exact purpose of the indicators? What aspects of flexicurity arrangements should be measured? Is it possible to define a “good” balance? How to prioritize the results? etc.

4. A few Concluding Remarks

This short paper attempts to highlight the main issues for moving towards flexicurity policies. It argues that efforts should be made on both conceptualization and operationalization dimensions. In spite of intensive discussions there exists so far no well established definition of flexicurity, so the understanding of flexicurity relates both to a conceptual framework and to a policy strategy. As an analytical framework, flexicurity proved as an extremely powerful and relevant concept for transition economies of Central and Eastern Europe, offering an alternative to the “pure flexibility” policy prescription promoted in that region. It also provided a platform for enhancing collective agreements and strengthening social dialogue. However, steps for proper concretization of flexicurity strategy are still needed in these countries, as well as in the other fifteen “old” EU member states. Putting theory into practices entails a series of challenges, such as pre-conditions for flexicurity (e.g. sequencing issue): for example, could flexicurity function without strong social partners and a well functioning social dialogue? The precise determination of the objective of the process (strategy towards what?), the financing of the social security systems, are among many other key challenges for moving from the conceptual framework to the policies. This makes flexicurity a challenging, fragile however indispensable alternative to preserve the European social model

Annex – Combining flexibility and security

Flexibility / Security	Job Security	Employment Security	Income Security	Combination Security
External-Numerical Flexibility				
Internal-Numerical Flexibility				
Functional Flexibility				
Wage Flexibility				

Source : T. Withagen and F. Tros, 2004: The concept of flexicurity: A new approach to regulating employment and labour markets, Transfer, 10 (2), 166-187.