



# **Mutual Learning Programme**

DG Employment, Social Affairs and Inclusion

## **Thematic Paper**

### **Flexicurity: the way forward**

#### **Peer Review on "Flexicurity"**

**Copenhagen (Denmark), 20-21 November 2014**

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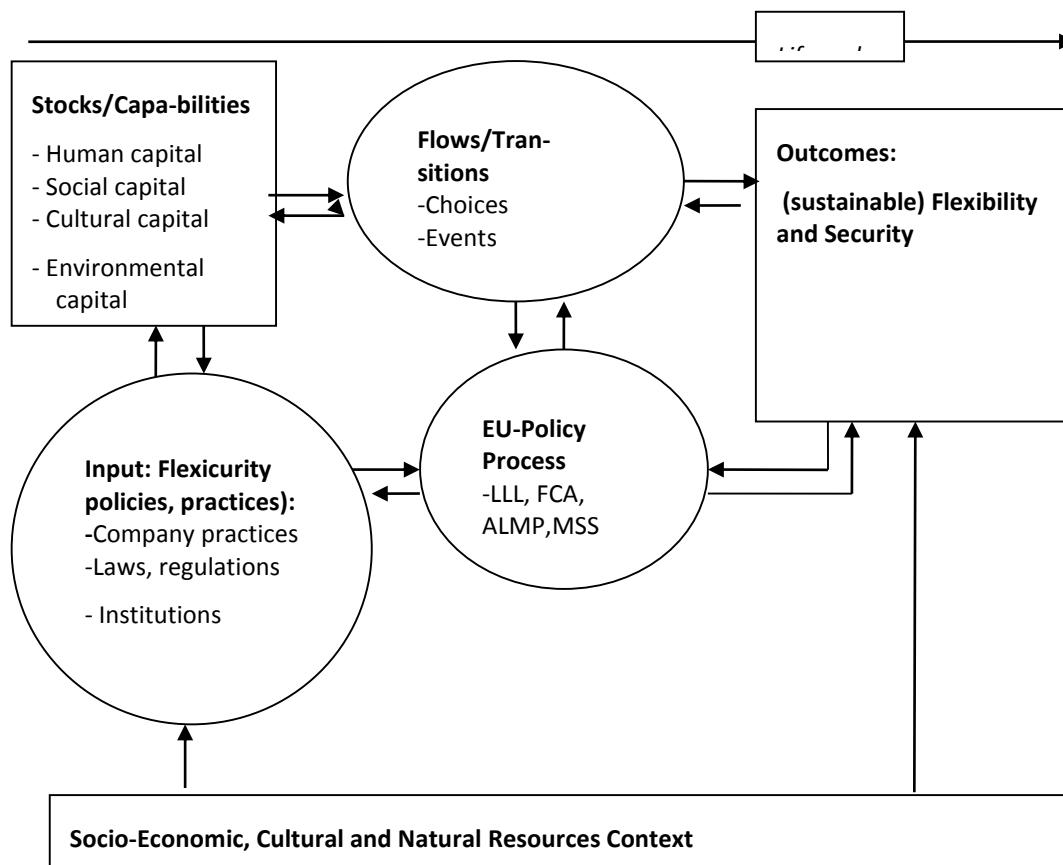
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## 1 Introduction

At its inception in the policy domain Flexicurity has been defined as an integrated **policy strategy** – at various levels – with the aim to enhance, at the same time and in a deliberate way, flexibility and security in the labour market. It thus attempts to reconcile employers' need for a flexible workforce with workers' need for security – confidence that they will not face long periods of unemployment and income loss (Wilthagen & Tros, 2004; European Commission, 2007).

Moreover, the concept of flexicurity can be understood as a “**state of affairs**”, where ‘state’ is not a static but a dynamic concept referring to stocks (of labour and various forms of capital) as well as to flows and outcomes, the so-called SFO approach. This approach fundamentally rests on an ‘agency-structure’ perspective where agency refers to the behaviour of individual/collective actors like employees and employers on the labour market and structure to labour market institutions, regulations, laws and practices affecting individual/collective actors’ behaviour but at the same time also being affected by the way actors behave (see also Leschke & Watt, 2010). The approach serves as a useful analytical framework and for monitoring the progress in the performance of countries on the flexicurity-security nexus (i.e. the state of affairs) – it is portrayed in Figure 1 below.

In the agency part of the model (in Figure 1 the upper part) the stocks reflect the various forms of human, cultural (e.g. trust) and social capital or capabilities which have been build up in the past through investments in education and skill formation, work experience, participation in social activities and social networks, and the flows the transitions and duration in these states (e.g. % of people moving in and out of employment or unemployment and the duration of stay in these states). The **outcomes** with respect to flexicurity are the attained level of the various types of flexibility and the various types of security (see below in this paper). The structure part (the lower part in Figure 1) concerns flexicurity **policies and institutions** at the EU, national and decentral level, impacting actors’ behaviour and mediating the flexibility and security outcomes, i.e. the state of affairs. Flexicurity policies constitute of **four components** as will be explained below: Life Long-Learning (LLL); Flexible Contractual Agreements (FCA); Active Labour Market Policies (ALMP) and Modernised Social Security Systems (MSS).



**Figure 1: Flexicurity as a 'States of Affairs': A Stock-Flow-Outcome (SFO) Approach**

FCA=Flexible and Reliable Contractual Agreements; ALMP=Efficient Active Labour Market Policies; LLL=Responsive Life-long Learning systems MSS=Modernised Social Security Systems (Source: Wilthagen, Muffels, & Chung 2013).

## 2 Background

The flexicurity concept was coined in the second half of the 1990s, notably in the Netherlands and Denmark and further developed by academics and policy-makers. In the early 2000s the concept gained interest at the European level and the European Commission started to actively explore, investigate and elaborate the concept. The need to balance flexibility and security was included in the early European Employment Guidelines. In 2007 the Council accepted eight **Common Principles on Flexicurity**<sup>1</sup> and flexicurity became a key policy within the EU's employment strategy. These Common Principles recommend:

- Broadening the introduction of the Lisbon Strategy to improve employment and social cohesion within the EU.
- Striking a **balance** between the rights and responsibilities of employers, employees, persons seeking employment and public authorities.
- Adapting the principle of flexicurity to the **circumstances of each Member State**
- **Supporting and protecting** employees when they are not in work or during a period of transition, to integrate them into the labour market or to coach them towards stable work contracts.
- Developing flexicurity **within** the enterprise as well as **external** flexicurity between enterprises, in order to support career development.
- Promoting **gender equality** and equal opportunities for all.
- Encouraging **co-operation** between the social partners, the authorities and other stakeholders.
- A **fair distribution of the budgetary costs and the benefits of flexicurity policies**, especially between businesses, individuals and public budgets, with particular attention to small and medium-sized enterprises (SMEs).

Flexicurity represents an important element of the Employment Guidelines and the European Employment Strategy as a whole. Integrated flexicurity policies play a key role in modernising labour markets and contributing to the achievement of the 75% employment rate target set by the Europe 2020 Strategy. Measures taken or initiated in this context that refer to flexicurity include:

1. **The Agenda for new skills and jobs** for upgrading, anticipating and better matching of skills and jobs, equipping people with the right skills for employment; improving job quality and the working conditions; and supporting job creation.<sup>2</sup>
2. **Youth on the Move**: to help young people acquire skills, qualifications and experience through a comprehensive package of policy initiatives on education and employment for young people in Europe.<sup>3</sup>
3. Anticipating, preparing and managing company **restructuring** by reducing the negative impact of restructuring and help people capitalise on the opportunities it presents.<sup>4</sup>
4. **Strengthening public employment services** such as job search support, career analyses, validation of experience, etc. and promoting the modernisation

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<sup>1</sup> COM(2007) 359 final

<sup>2</sup> COM(2008) 868 final.

<sup>3</sup> COM(2010) 477 final.

<sup>4</sup> COM(2010) 882 final.



and strengthening of PES service delivery<sup>5</sup>, including the Youth Guarantee that was agreed among Member States in April 2013.<sup>6</sup>

5. The so-called **Euro Plus Pact**.<sup>7</sup>

Consensus has been reached with national governments, social partners and academics in the EU that flexicurity policies can be developed and implemented by Member States along four components (COM):

1. **Flexible and reliable contractual arrangements (FCA)**: to support 'outsiders' who are employed on short-term or irregular contracts or are unemployed to find work and to move into more stable contractual arrangements and sustainable careers – and to support 'insiders', employed on open-ended contracts, prepare themselves for job changes and new labour market demands.
2. **Responsive and comprehensive lifelong learning strategies (LLL)**: to ensure that EU citizens have the opportunity to obtain a high quality initial education, develop a broad range of key skills and acquire new skills and to be able to upgrade existing skills throughout their working lives.
3. **Effective active labour market policies (ALMP)**: to help unemployed people back to work through job placement services and labour market programmes, such as job search guidance and intensive courses.
4. **Modern social security systems (MSS)**: EU governments need to provide adequate unemployment benefits to act as a safety net when people are changing jobs and offer healthcare benefits in case they fall ill as well as pensions for when they retire.

The European Commission encourages Member States to work with social partners with a view to including approaches to flexicurity policies in their National Reform Programmes, viewing social dialogue as a key condition in designing a flexicurity labour market based on the aforementioned components (European Commission, 2007).

The European Commission (2007) characterizes the OECD definition of flexicurity policies broadly as follows: moderate Employment Protection Legislation (EPL), high participation in lifelong learning, high spending on labour market policies (both passive and active), generous unemployment benefit systems balancing rights and duties, broad coverage of social security systems, and high trade union coverage (see also OECD, 2006; Eriksson, 2012). Active involvement of social partners is essential to ensure that flexicurity delivers to all. Integrated flexicurity policies are often found in countries where the dialogue (and trust relations) between social partners, and between social partners and public authorities, has played an important role. Flexicurity can also be said to bridge the opposite poles of the broad spectrum of social models, combining the best of the unregulated, liberal model and the regulated, classical social model (see for an extended explanation of these models (Muffels, Crouch & Wilthagen, 2014).

The so-called Wilthagen or **flexicurity matrix** further specifies the dimensions of flexibility and security by distinguishing four forms within each dimension: external-numerical (hiring and firing), internal-numerical (working-time), functional (or employability) and wage flexibility, and job, employment, income (or social) and combination (work-life balance) security. These forms of flexibility and security can be complementary and mutually supportive, leading to various productive flexibility-security combinations or modalities (Wilthagen & Tros, 2004; Tros, 2012). Both the typology of components of flexicurity and the flexicurity matrix have been extensively used in flexicurity research and debate over the past decade.

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<sup>5</sup> VC(2007) 0927 final report.

<sup>6</sup> 2013/C 120/01

<sup>7</sup> COM(2010) 682/3.

At this point in time, seven years after the launch of the Common Principles of Flexicurity, the following questions might be considered relevant in the debate on the perspectives for flexicurity policies:

1. Which typical flexicurity approaches can be observed among the EU Member States in view of general challenges?
2. Which flexicurity strategies are envisaged as a response to these challenges?
3. How has the financial crisis affected the state of flexicurity in the European Union (see also Auer & Chatani, 2011)? And what kind of flexicurity policies and practices have countries developed in coping with the crisis, also with a view on the possibilities and opportunities of mutual learning?
4. What is the future outlook of flexicurity in the recovery after the crisis – is there a need for a flexicurity 2.0 strategy?

The remaining part of this paper will deal with these questions, taking into account the limitations of the format of the paper.

### 3 Approaches to flexicurity

#### 3.1 General challenges for countries

Much of what has been written in the flexicurity literature and research departed from Esping-Andersen's seminal **typology of welfare states** (1990) followed by many other authors (e.g. Ferrera, 1996). This research largely confirmed the existence of flexicurity clusters among the EU Member States, using the two dimensions of high-low labour market flexibility and high-low labour market security where the average at EU level acts as the reference level. In EU policy-making a typology has been applied not being based on a predefined set of statistical features but on the existence of geographical clusters: a **Nordic** cluster (usually including the Netherlands), a **Western** or Anglophone cluster (UK and Ireland), a Southern cluster (Mediterranean countries), a **Central-Continental** cluster (Belgium, Germany, Austria) and a **Central-Eastern** European cluster. However, both the theoretical and policy-geographically oriented typologies of flexicurity are not perfect in the sense that they do not fully mirror the empirical 'states' of flexicurity in the various countries. The heterogeneity within the respective clusters tends to be significant, e.g. in the Central-East European cluster but also within the Continental and Nordic cluster. Some countries compare better with countries in other clusters than in their own. Last but not least, the states of flexicurity are not "frozen", especially not in times of crisis. Therefore, these typologies should be considered and used at best as paradigmatic or "ideal typical" types. In practice there are mostly hybrid forms combining features from various social models (see Goodin & Rein, 2001).

The following four ideal-typical **flexicurity pathways** depart from typical challenges country clusters are confronted with (Bekker & Wilthagen, 2008; Muffels & Wilthagen, 2013;):

- Dealing with flexibility at the margin of the labour market. It suggests reducing asymmetries between standard and non-standard work by promoting upward transitions in the labour market (e.g. from temporary into open-end contracts) and by integrating non-standard contracts fully into labour law, collective agreements, social security, and lifelong learning systems;
- Securing timely transitions from job-to-job and from not-work into work to strengthen mobility;
- Providing access to learning and good transitions for all by strengthening investments in skills;
- Comprehensive social security supporting transitions to regular work, increasing the employment and job opportunities of persons who are currently on social security benefits or working in the informal sector.

## 4 Flexicurity during the crisis

### 4.1 The state of flexicurity in the EU during the crisis

In the years the European flexicurity concept was developed the EU's economy and labour market was doing rather well: employment and labour market participation levels went up and unemployment rates went down (Bekker, 2012). In this period there was a rather supportive political climate to work on a more social Europe (Tros, 2012). The recent financial and economic crisis that became manifest in the autumn of 2008, less than a year after the Common Principles of Flexicurity were accepted, has dramatically altered this context and highlighted the need for changes in the operation of markets, including the labour market (Auer, 2010b). The economic recession is thought to have put pressure on the implementation of flexicurity in the EU Member States and, on the other hand, evoked questions on the underlying features of the concept itself (Tros, 2012). The main concern was that flexicurity policies could not prevent the steep rise of (youth) unemployment as a consequence of the dramatic drop in output at the wake of the crisis.<sup>8</sup> However, part of the test must include the employment recovery performance through safeguarding access to steady employment for the insiders and outsiders.

The state of affairs and key policy patterns of flexicurity in the EU country clusters will be briefly and very generally summarized below per cluster (using quantitative data up to 2011, and qualitative data), also addressing current challenges.

#### **NORTH:**

The Northern Member States still show relatively high scores on all four components, especially ALMP and LLL. The levels of both flexibility and security are still highest compared to other country clusters.

- Adjustment has taken place through quick separations (Denmark), reduction of working hours (most), transition security and generous social security systems (Denmark, Sweden and Finland) and through reducing temporary staff initially while retaining high shares of flexible labour (the Netherlands).
- Continuing challenges: the financing of ALMP, MSS, and LLL; reduced security levels might reduce the support for flexibility, while putting an extra burden on e.g. the income position of weak groups.

#### **MIDDLE:**

Continental Member States are featured by intermediate-to-upper level scores on ALMP, MSS and LLL with varying performance in the use of flexible and reliable contracts.

- Levels of internal flexibility are higher than those of external flexibility, mobility is relatively low, combined with intermediate-to-upper level scores on ALMP, MSS and LLL;
- Adjustment mainly through reduction of working hours/internal flexicurity (formal schemes, Germany, Austria), temporary unemployment scheme (Belgium), employment pools (Austria);
- Continuing challenges: increase mobility, warrant financial sustainability, productivity and effectiveness of ALMP, MSS and LLL.

#### **WEST:**

The Anglo-Saxon Member states display varying performances with the UK scoring intermediate-to-upper level with regard to flexible and reliable contracts and Ireland scoring low in this dimension. These positions are reversed in the areas of MSS and ALMP.

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<sup>8</sup> On the transitions of youth in the labour market and flexicurity see Madsen et al., 2013.

- Levels of flexibility remain higher than those of security, though investments in LLL are relatively high.
- Adjustment through quick separations, reduction of working hours (but informally, without formal schemes), wage flexibility, returning home of migrants.
- Continuing challenges: prevention of long-term unemployment, poverty risks, access to LLL.

#### **SOUTH:**

The Southern Member States show divergent performances. Regarding flexible and reliable contracts some countries are close to the bottom end of the spectrum, whereas other countries share a high level of involuntary fixed-term contracts with low levels of security. Performance on MSS is intermediate-to-upper level and the scores on ALMP and LLL are intermediate-to-lower. Levels of flexibility with a view to using fixed-term labour remain higher than of maintaining high levels of security and there is limited scope for intensifying ALMP and LLL spending.

- Adjustment follows mainly through the flexible segment of the labour market; the stepping stone to open ended contracts is not solid; that means that the transition rate into regular contracts is low;
- Continuing challenges: job creation, long-term unemployment, lost generation, overcoming two-tier or dual labour market issues (unequal access).

#### **EAST:**

As indicated already these (rather new) Member States show a lot of variety and might be less seen as a coherent cluster.

- They have lower positions in all dimensions, with Slovenia and Poland being exceptions in terms of flexible and reliable contracts (FRC), Cyprus in MSS and Czech Republic and Malta in LLL.
- Adjustment has mainly been managed through redundancies and short-time working (with limited income support) and reduced nominal and real wages;
- Continuing challenges: prevention of long-term unemployment, increased scope for MSS, ALMP and LLL spending; building of institutional capacity is needed (social dialogue).

### **4.2 Flexicurity practices during the economic crisis**

This section describes a brief selection of flexicurity policies and practices in the European Union, developed or already in use as a response to the economic crisis, and fitting the definition provided in section 1 of this paper.

#### **Internal numerical flexibility combined with social security: short-time working arrangements and working-time accounts**

Various countries introduced new – sometimes temporary – **short-time working arrangements** (STWA) or expanded the scope of existing short-time work arrangements in order to prevent losses in human capital or bankruptcy caused by the economic downturn. The majority of countries financially supported training activities (**Austria, Belgium, France and Germany**) or made participation in training mandatory during the STWA (**Czech Republic, the Netherlands and Slovenia**) – these measures did however not always guarantee that training was indeed taken up (Waltz et al., 2012).

The newly established STWA are less generous and more stringent in terms of eligibility and conditionality requirements compared to STWA that had been established before the wake of the financial crisis in 2008-09. Furthermore, it is assumed that the generosity, eligibility and conditional requirements of STWA during the 2008-09 crisis

maximized the effect and impact of STWA. The involvement of social partners in some countries led to (additional) agreements about STWA. These agreements often increased the generosity of the employee schemes. Furthermore, it appears that within the EU countries only in old member states STWA is financed by the unemployment benefit system. New member states finance STWA from the state budget or from the European Social Fund (Waltz et al., 2012).

**Germany** is a good example of the company practices that aim at synchronizing business cycles with working hours. **Working times accounts** (and complementary short-time work allowances) (*Kurzarbeit*) have played an important role in supporting labour hoarding in the economic downturn (f.e. Eichhorst et al., 2010). Working time accounts in Germany facilitate flexibility in the number of hours (i.e. internal-numerical flexibility) by day, by week or over the year and are extensively regulated in collective agreements and company arrangements in German workplaces. In 2009: 30% of German companies made use of working time accounts (reduction of hours or working time credits). In some months in 2009: 1.4 million persons in Germany were in short-time work. In Germany and **Italy** between 2.5 and 5% of the workforce participated in short-time work arrangements in the high recession period. In the **UK** no formal schemes exist, but a reduction of working hours is accepted at the company level by workers on a voluntary basis (e.g. by taking up leave or holidays).

#### **Functional and external-numerical flexibility combined with employment security: job transition systems**

The **UK** introduced The Young Person's Guarantee (transition security for young people) in 2009, a suite of programmes for job seekers aged from 18 to 24. Claimants are referred to the YPG programme of their choice somewhere around the tenth month of their Job Seekers Allowance claim. There are four YPG options: sectoral routeways: pre-employment courses to place young people into targeted industry sectors, such as care work, the Future Jobs Fund: government-funded 'jobs' of 6 months duration, paying rate-for-the-job (in practice likely to be minimum wage), Work-focused training: enabling claimants to take existing, vocational training courses at colleges, learning providers etc. and Community Task Force: work placements of up to 6 months duration, that do not pay rate-for-the-job.

In **the Netherlands** a "Work Experience Grant" scheme for young job seekers was started at the municipality level, in the city of Tilburg, initiated by Tilburg University and two Dutch trade unions for young workers. School-leavers that cannot find a job are stimulated and facilitated to find a traineeship at a company or institution that matches both the level and relevant content of their education. The youngster is encouraged to actively approach a company or institution. Alternatively the employer can post a Work Experience Grant vacancy on the special website that was established for that purpose: [www.startersbeurs.nu](http://www.startersbeurs.nu) The employer pays at least 100 euro per month to the young person and the municipality pays in 400 euro (using ESF funding), so that a total grant of 500 euro per month is created, given for a maximum period of 6 months that cannot be prolonged. At the start of the work experience period, the youngster completes a competence test, via the registration website to assess his or her general competences. This test is repeated at end of the work experience period in order to document which specific competences have been strengthened due to the traineeship. Currently more than 150 Dutch municipalities have joined the scheme and research shows that 52 percent of the job seekers have found a job one month after completion of the work experience period.

In **Sweden** collective funds are used for job-to-job transitions. The social partners established bi-partite 'employment security councils' or transition agencies at the sector level, financed by employers' fees based on 0.3% of the labour costs. The system operates as a form of insurance system, distributing the risk and costs of economic dismissals among the companies in the branches. The councils provide consultation in early stages of restructuring, outplacement services for redundant workers and finance temporarily salary-gaps in case of outplacement to lower paid jobs. Sometimes these

councils employ job coaches, sometimes these services are outsourced to private providers (Borghouts, 2012; Tros 2012). **Finland** shows similar developments: 'change security funds' and tripartite 'Flexicurity Committees' at the sector level.

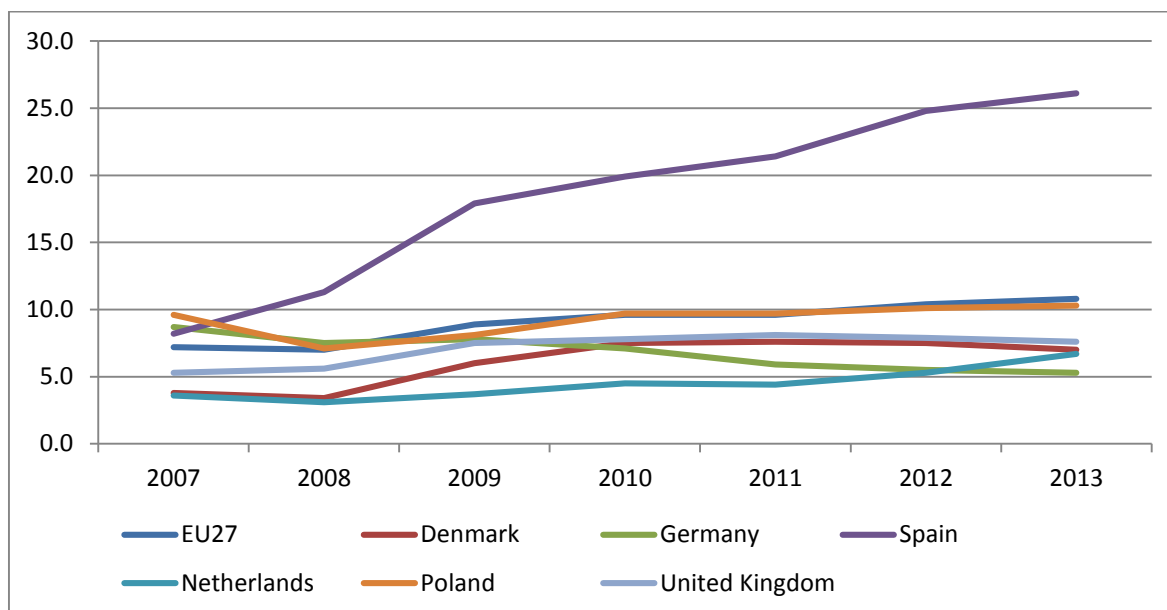
**Belgium** stepped up measures to secure outplacement support for dismissed workers. In 2009 the Economic Recovery Law outplacement rights and obligations for redundant workers were strengthened and all private employers in restructuring are obliged to install 're-employment cells' to promote fast replacement of their dismissed workers to another paid job. This outplacement policy, which includes legal entitlements for workers, was further broadened in 2014. The Belgian case is an example of a structural and encompassing policy of enforcing 'activating restructuring'. In the 2014 reforms Belgium also decided on a uniform labour statute (*Eenheidsstatuut*) for white and blue collar workers, ending the traditional dual system that existed for these two groups, notably in the area of dismissal protection and procedures. At the same time several other adjustments were made, such as the obligation to use part of the severance pay budget as an active component to prepare for the transition to another job (Wilthagen, 2014). **Spain** and **Slovenia** engaged in a reform of EPL of open ended and temporary contracts during the crisis, Spain also taking into account the importance of enhancing internal flexibility for that matter. These flexicurity reforms not only resulted in reduced labour market segmentation but also contributed to renewed economic growth with employment creation.

### 4.3 Unemployment rates and flexicurity

Over the past years the unemployment rate has been used as one of the indicators of the flexicurity state or performance of countries. Although it is certainly interesting to measure and compare the development of unemployment in the so-called flexicurity countries, unemployment is clearly not solely determined - let alone resolved - by flexicurity policies. Very often the discussion about the 'best' social or economic model starts from a certain favorable state of affairs in a "model country", usually low unemployment, and it is then assumed that this state can be fully attributed to the chosen particular policy mix in that country, while further arguing that other countries that manage to copy or imitate this policy mix will gain naturally from a similar favorable state of affairs. This argumentation certainly is tempting, but just as questionable, as unemployment has manifold macroeconomic causes. Nevertheless, the dynamics and characteristics of unemployment can to a certain extent be explained by certain features of a country's flexibility-security mix.

Let's look at the development in a few countries, belonging to the various EU's geographical clusters (Figure 2 below). Between 2007 and 2013, Denmark, the Netherlands - both countries labelled flexicurity countries in the past years - Germany, Spain, Poland and United Kingdom experienced different trends in total unemployment rates. In all six countries unemployment increased, with an extremely sharp increase in Spain that already started before 2008. The Netherlands and Denmark initially experienced the lowest unemployment rates with Denmark showing a relatively sharp rise and being surpassed by Germany around 2010. The Netherlands showed a further rise around 2012 and was then also surpassed by Germany, showing a steady declining unemployment that already started around 2009 - in 2008 Germany was still the second worst performer regarding the level of unemployment after Spain within this selection of countries. Poland more or less followed the EU average in the rising trend of unemployment, reaching a level just above the 10 percent threshold. In the UK unemployment grew but the trend started to flatten after 2010-2011. In 2013 all countries except Spain and Poland fall within the range of 5 to 10 percent unemployment, with Germany having the lowest rates at a stable level, unemployment further decreasing in Denmark and the UK while still growing in the Netherlands at that time.

Figure 2: Unemployment rate 2007-2013 (%) (Source: Eurostat)



What does this tell us about flexicurity? Heyes (2011) states that the development in Spain, which has seen an extremely large drop in its employment level notwithstanding a high employment protection legislation index, can be explained by Spain's exceptionally large share of workers on contracts of limited duration. He also contends that the European Commission regards the use of these contracts as facilitating the contractual flexibility needed to deliver 'flexicurity'. However, the Netherlands also has a relatively high EPL index score for permanent workers and a high share of temporary work of 30% in 2014 at similar levels recorded in Spain, Portugal and also Poland. Yet, the Netherlands did not experience a similar strongly increasing unemployment trend as Spain which is due to firms maintaining initially high levels of regular employment through 'labour hoarding'.

Auer (2010a) mentions as the main question whether flexicurity countries, with labour market institutions and adaptation mechanisms and actors' behaviour relying on lay-offs, generous social protection and active labour market policies for the reintegration of the unemployed, will survive the adversity caused by the shock of the crisis better than countries that have relied more on stringent employment protection, combined with internal adjustment measures, such as Germany. Using data covering the period up to 2009 he concludes that the recent economic downturn has not (yet) confirmed that flexicurity is a superior way of organizing labour markets as it might have appeared before the crisis. Indeed, at least some of the countries that are associated with flexicurity have experienced worse unemployment increases than other non-flexicurity countries during the crisis, although their levels of unemployment are still relatively low. Auer (2010b) states: "Relying too heavily on external adjustment (even when protected by generous unemployment benefits) may lead to a vicious circle of quickly rising unemployment and ensuing long-term unemployment in the case that employability levels are low. As long as the social protection systems are sustained, such flexicurity arrangements may survive, but will be put under strain also by the fiscal constraints governments confront. In the recent economic crisis, countries that have used internal adjustment mechanisms under stricter regulation of employment security seem to have fared better than countries following the route of marginal or external flexibilisation. This can show that 'stricter employment protection cum protected internal adjustment' can be an attractive alternative to 'reducing employment protection cum protected external adjustment'". However, not all countries that have adopted this first adaptation route of internal flexibilisation are among the best performers when it comes to unemployment, including Belgium and France. Again, the issue appears more complex than such analysis suggests and a great many more factors are at play affecting the



evolution of unemployment such as the debt position of households, the level of consumption and capital investment, the employment structure, the advancement of product technology in manufacturing (product innovation) or the competitive strength of the export sector (Caspar et al., 2012). Eichhorst et al. (2010) e.g. argue that Denmark and Germany more quickly recovered from the output shock caused by the crisis because of the generosity of their benefit systems stabilizing the level of consumption. At the same time Eichhorst et al. (2010) conclude that it is not surprising that many countries expanded or introduced short-time work schemes in order to sustain employment during the recent crisis not just the continental countries. Short-time work arrangements allow for a smooth short-term adjustment, but also mean “a costly bet on a quick recovery” while adversely affecting productivity levels. Furthermore, even in highly regulated labor markets with elaborate systems of internal flexibility, non-standard workers show a much stronger risk of being made redundant during a crisis. Hence, “the burden of adjustment in the current downturn is distributed rather unequally between insiders and outsiders and tends to reinforce the dualisation of the labour market”.

#### **4.4 Measuring flexibility and security in the EU throughout the crisis**

In order to measure flexicurity outcomes adequately we need to go beyond using institutional indicators only (such as the level of EPL regulation or ALMP expenditures) as is traditionally done and to construct dynamic outcome indicators on flexibility and security. These can then be used to compare the performance of countries before and during the crisis period. In this section two mobility and two transition security indicators are defined. The mobility indicators are the job-to-job mobility and the contract mobility indicator. The first one is calculated as the percentage of people moving annually from one job into another, weighted with the share of employed persons. The second is the weighted mobility rate for people moving from fixed-term to open-ended contracts and vice versa showing whether indeed temporary jobs acts as ‘stepping stones’ into steady jobs or not. The two mobility indicators are next combined into one index. The transition security indicators are a transition employment security index and a transition income security index. The first index is the weighted percentage of workers moving into a more secure employment status in the following year netted for the people moving into a less secure status and weighted with the share of workers in each status.<sup>9</sup> Likewise, the income security index is the weighted percentage of people improving their income security, that is the likelihood of staying out of poverty for another year or escaping poverty, netted for the people reducing their income security, i.e. is the likelihood of staying poor or moving into poverty.<sup>10</sup> The two indicators on job and entry-exit mobility were combined into a labour market mobility index (LMI) and the two indicators on security into an income and employment transition security index (TSI)<sup>11</sup>. Countries’ positions on these indicators indicate the extent by which the goals of flexibility (efficiency) and security (income, employment) are attained. The data used come from the European Statistics on Income and Living Conditions (EU-SILC) for 2006–2011, supplemented with data from the annual German Socio-Economic Panel (GSOEP) for 1984–2011. The results are shown in Figure 3, in which the two thick lines represent the European averages on the two composite indices for 29 European countries.

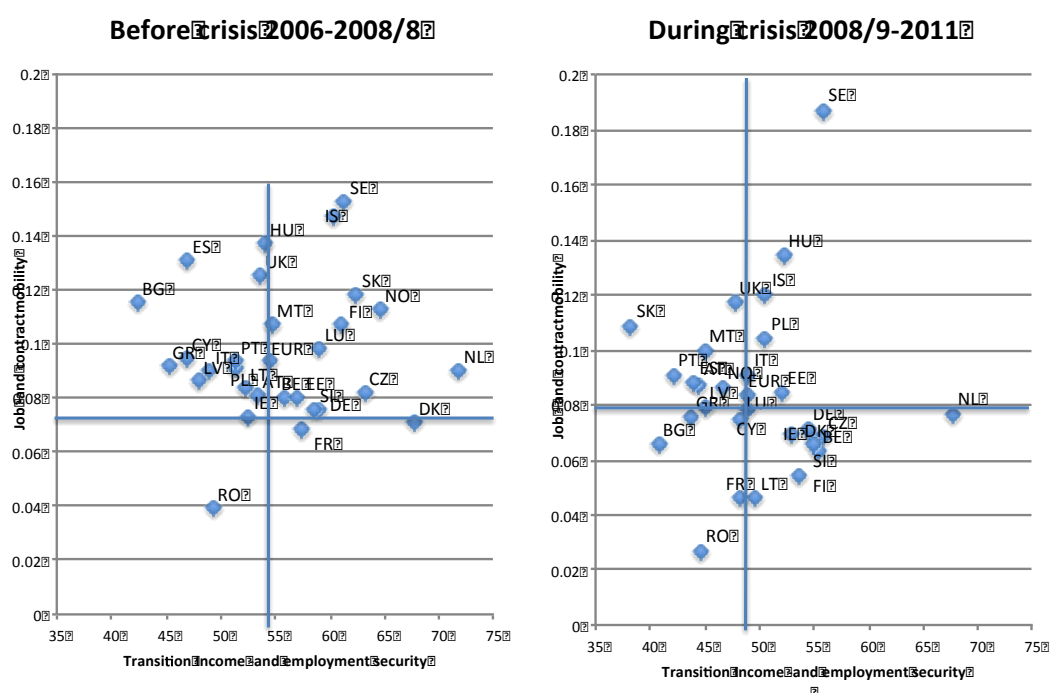
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<sup>2</sup>We consider transitions out of employment into unemployment or inactivity as transitions into more insecurity and into employment as transitions into more security. People residing in non-employment for another period are considered more insecure and people residing in employment more secure

<sup>10</sup>Poverty refers to the country-specific minimum income threshold the European Commission is using for its poverty indicators, being 60 percent of the equivalent household income in each country.

<sup>11</sup>. EU-SILC contained no data on temporary jobs for Denmark for which reason the job mobility rate for Denmark is underestimated because it refers to open-end contracts only in which mobility is much lower than in temporary contracts.

Figure 3. Flexibility-security outcomes before and during the crisis (source: EU-SILC 2006-2011)



Before the crisis we find that mainly the Nordic countries Sweden, Norway and Finland combine high scores on labour mobility and transition income and employment security. Remarkably, this does not hold for Denmark but that might be an artefact of the data since we have no information on contract mobility in EU-SILC because of which the mobility figures for Denmark are underestimated. Another reason might be that the mobility figures for Denmark are indeed moderate due to more stringent employment protection regulations than the (pre 2013) OECD's EPL figures for Denmark show (cf. Janssen, 2013; specifically on Denmark see Jørgensen, 2010). Note also the position of the United Kingdom with high levels of mobility but moderate levels of transition security that is caused by low levels of notably transition income security. Further to this, figure 3 shows that Spain has a high mobility caused by a high level of job mobility in fixed-term contracts which last relatively short (<6 months). The low mobility in the Netherlands can be attributed to the low mobility in open ended contracts. Note also the low mobility figures in the main Continental countries such as Germany and especially France whereas they perform much better in terms of safeguarding transition security. The Southern countries Italy, Portugal, Greece and Cyprus belong to the quadrant with low levels of mobility and security whereas the situation of the Eastern countries is very heterogeneous. The latter countries share low levels of transition security but very different levels of mobility. All in all the crisis has had a strong impact on the levels of mobility and transition security.

Viewing the effects of the crisis we find that in many countries the balance between flexibility and security has been distorted because of reduced levels of mobility but notably of transition security in nearly all countries. A part of this impact stems from the implementation of austerity measures (Heyes, 2013; Kattel & Raudla, 2013; Matsaganis, 2012). The figures reflect the situation up to 2011 whereas in many countries the crisis has had adverse effects on mobility and security also after 2011.

The differences between countries are reduced due to the crisis but the relative positions of the countries have not changed much: the Nordic countries still performing best (see also Jochem, 2011) and the Southern and Eastern countries worse in balancing flexibility and security. Remarkably, mobility decreased strongly in Spain and Finland but remained high in Austria and Sweden. This might be partly associated with the institutional features of these countries such as the extended support of job mobility programs. Belgium and Poland appeared capable of maintaining the pre-crisis levels of transition security. In many countries the transition rate from fixed-term into open-ended contracts is rather low and further reduced during the crisis because of which fixed-term contracts less and less so function as stepping stones to steady jobs and therewith reinforce the dualisation of the labour market.

In a separate analysis we investigated the impact of the labour market institutions on labour market transitions. Especially the protection of regular jobs and the gap with the protection of temporary jobs exerted a negative effect on job-to-job mobility and the transition from a temporary into a regular job (see also Bentolila et al., 2012).

## 5 Conclusions and points for debate: the next stage of flexicurity

The key findings reported in this paper give reasons to reflect on Europe's next stage of flexicurity. In this final section of the paper 6 points for discussion are forwarded.

First, clearly, as a result of the deep and continuing financial and economic crisis, both flexibility and security have decreased and there certainly is a need to step up the employment security dimension of flexicurity, especially for flexible and vulnerable workforces. There is a renewed need to fight labour market segmentation (Caspar et al., 2012). However, there is also a need to better prepare workers on open ended contract for future job and labour market changes. Both groups should be able to share the same perspective: a sustainable career in good quality jobs without the risk of long spells of unemployment and income loss. Training and education are key here and are not or insufficiently accessible for certain groups (see Alphametrics, 2009). Realistically speaking it might be quite hard to drive back so-called non-standard employment at this point in time and turn it back into standard employment. The gradually decreasing share of permanent contracts is a world-wide trend that is among others observed by the ILO and we cannot be sure that the stepping stone function of temporary work will be reinforced in a post crisis and further ageing society.

One of the explanations for the growth of non-standard work is that it is not merely demand-driven, although many companies are aiming at a larger flexible shell of workers as their organizational, business and production models and structures are changing – the further rise of the network economy. But workers' preferences, especially among younger generations, are also changing. This not only applies to part-time employment, which in countries as the Netherlands is a highly preferred and normal way of combining work and private life, but also for a proportion of self-employment. Especially in service economies contractual diversity will grow and we might already have passed the peak era of wage employment. Furthermore, it should also be concluded that cross-border, transnational mobility and migration are here to stay – and are vital to our societies.

This implies that sustainability strategies in the labour market might not exclusively rely on building security ladders from non-standard to standard employment. Governments can step in and provide national/uniform schemes for vital securities without differentiating between groups of workers, including training, pension and work & care schemes for all. However, broad, inclusive schemes tend to offer rather minimum levels of rights and provisions, unless governments and tax payers are willing to put in a substantial contribution. In some countries more universal security could possibly be achieved by introducing a new type of uniform open-ended contracts (*contrat unique*) which offer more flexibility than current employment contracts but that build gradually build up securities at the same time. Alternatively, social partners in countries with extensive collective agreements could decide to include, e.g. on the basis of opt-in arrangements groups that are currently not or no longer covered. This will also restore the support for and participation in these collective schemes (such as pensions) that are currently on the decline (on the one hand because growing groups are not included and on the hand because the labour force is shrinking);

Importantly, one should not overlook financial systems for mortgages and loans. As long as these systems are exclusively open to people working on open ended employment contracts, many groups in the labour market, especially the young, will have a hard time financing a house. Currently banks have grown much more risk averse and the creditability and eligibility of non-standard workers is not likely to become stronger.

All in all the idea could be to turn around the idea of an employment contract into a 'labour market contract', on the basis of people's membership of the working population, or civil society, just like we need to redesign unemployment insurance as 'employment insurance'. Employment rights need to be divorced from the individual employment

relationship. Basic entitlements should be afforded to all who participate in the paid workforce, however marginally (Fredman, 2004).

Moreover, a universalized flexicurity scheme should not only operate within national borders, but also across these borders, to the benefit of migrant workers. All this can be part of the next stage of flexicurity. At the same time it should be acknowledged that there can be a clear tension between making flexible employment more secure and thus costly, on the one hand, and job opportunities for the low-skilled through this kind of employment on the other.

**Discussion point 1: how can more sustainable careers be designed and developed for all groups in the labour market, while also strengthening the adaptive capacities of European companies and institutions?**

Job creation should be strong focus of flexicurity in the next years. Flexicurity can certainly cater to more and better jobs, e.g. in the following ways:

- Existing, sustainable jobs are maintained and saved by temporary measures such as short-time working and social security benefits; Workers are facilitated to make a timely transition to a new job in demand sectors, once the necessity arises, aiming at decent conditions in the new job, where necessary supported by temporary income supplementation and retraining (see Borghouts, 2012); some of these transitions could be temporary in the sense that workers might move to other sectors in their region that are characterized by a different business cycle and later on return to their former jobs;
- Employers, private and public, are incentivized and supported with the right conditions (active support, but also forms of no-risk insurance) in creating new jobs and hiring workers; this requires flexible and reliable contracts and e.g. the use of temporary wage subsidies to compensate for productivity deficits workers might have at the start of the job. That way, 'in-work' securities can be offered, instead of passive income support in the form of traditional social security benefits;
- Another strategy consist of job-carving, i.e. splitting up existing jobs into high and less demanding tasks, the latter allowing for new opportunities for currently unemployed people; Especially small and medium sized enterprises (SME's) are supported to further collaborate and coordinate their HR and employment policies – this way several 'near-job vacancies' within individual firms can be 'added up' or combined and develop into full vacancies; in a similar way near-redundancies can be prevented from developing into real redundancies by maintaining jobs through joint employership among SME's; the French legal concept of multiple employership (*groupement d'employeurs*) can serve as an inspiring example here and so-called employment pools, job pools, flex pools or transition pools are active among SME's in various sectors and Member States;
- Coordination is stimulated within European regions between business, local government and training and education institutes (triple helix approach) as to jointly develop both business potential and employment security in the region, guaranteeing that key sectors of industry and services can dispose of the right amount of workers with the right skills at the right moment – well-organised regions can thus offer a 'job guarantee': not a guarantee for a particular job with a particular employer, but the guarantee of keeping a job in the region; Workers are encouraged and aided in maintaining the right skill and qualification levels, enabling them to remain productive in their current job and equipping them with the skills to take on the new jobs to come;
- Labour markets are made more transparent and the information on both labour demand and labour supply is deepened by adequately revealing the actual competences workers and non-workers have to offer and the competences required by employers (one single 'language' in the labour market); this will allow

for better and quicker job matching and will turn unfilled vacancies into real jobs; e-Matching, e-Portfolio systems and systems for accreditation of prior learning are useful here;

- Currently young people are either in work, in education or unemployed, but there is a need for flexible dual systems where they can work *and* learn, after completing vocational training, rather than stay or become unemployed. This is also the main thrust of the European Youth Guarantee idea;
- People are helped by modern social security and active labour market policy to make the transition from inactivity to the regular labour market, erasing existing disincentives and offering support through forms of retraining and child-care facilities; People are facilitated in setting up sustainable forms of self-employment and micro entrepreneurship, creating, as advocated above access to basic securities (training, disability benefits insurance, pensions) and preventing the emergence of working-poor;
- Labour markets, wage and skills levels and taxes on a labour are managed in an overall way so that foreign investors and employers are attracted and will be offering new job opportunities or insource work that was off-shored and outsourced in the past. The global playing field is changing and models for total cost of ownership can lead to new decisions on where to manufacture goods. The US is already quite successful in the re-shoring of jobs ("bringing jobs back home"). A flexible and high-quality work organization can be an asset from this point of view.

### **Discussion point 2: how can flexicurity strategies contribute further to job creation and job growth?**

In addition, both the Common Principles and the components of flexicurity stress the *sine qua non* role of a supportive and productive social dialogue and highly-developed trust-based industrial relations play within the process of making flexicurity system work. Social partner organizations, the social dialogue and collective bargaining systems are not free from pressure, among other things as a result of declining trade union membership rates. This development might induce a loss of regulatory capacity, also in the area of policy – which could be small or large, depending on the national situation of the Member State. At the same time many new Member States still need to manage building up more institutional and social dialogue capacity, even though formal structures might be in place. Moreover, as already stressed, the growing flexible workforces are not or only partly represented in and covered by the existing collective systems for labour market coordination and social security organization. Therefore, more carriers for flexicurity might be needed than the traditional social partner organizations as they can no longer or not yet carry the full load of labour market facilities and reforms to cater to the needs of the total workforce, including self-employed people. This calls for new alliances between all stakeholders in European labour markets. Notably the networks, business networks, i.e. regional networks of SME's but also networks throughout the value chain, including large companies, Original Equipment Manufacturers (OEM's), and suppliers and communities, e.g. communities of self-employed people, could contribute to increased regulatory and organizational capacity ("economy of scale") and mutual risk management in the labour market.

### **Discussion point 3: Who are the future carriers of flexicurity, which coordination mechanisms can play new or additional roles?**

It would be premature to conclude that the crisis has heralded the "end of flexicurity" or that its "promise" is broken (Fredman, 2004; Hoffer, 2011), simply due to the fact that internal flexicurity, among other things in the form of short-time working arrangements, has been widely applied and sometimes fairly successfully used in various Member States, next to external flexicurity strategies. In fact, flexicurity is about all productive modalities of flexibility (also flexibility for workers) and security, as

outlined in the so-called flexicurity matrix, including well-designed combinations of on the one hand working-time flexibility and social security on the other. No. 5 of the Common Principles of Flexicurity rightly states that internal and external modalities of flexicurity are equally important. The EU's Agenda for New skills and jobs confirms the eclectic nature of flexicurity. Both external and internal flexibility have their merits and limits, depending on the state of the labour market and the economy, and should be handled with care and in an evidence-based way.

**Discussion point 4: how can countries, sectors and companies design and adjust the best "flexicurity mix", taking into account the dynamics of modern labour markets and economies?**

Furthermore, as argued in this paper flexicurity translates differently in the various clusters of Member States identified in this paper. Also the challenges vary in these clusters. However, research that aims at identifying flexicurity practices does show that 'next practices' can be observed that exactly respond to these challenges. Within the format of this paper we could only identify a small number of practices. The Mutual Learning activities could be further targeted to specific practices and solutions that address major flexicurity issues in (clusters of) countries. This can increase policy-learning in a focused manner.

**Discussion point 5: What practices can be considered "next practices" of flexicurity, taking into account the various challenges that (clusters of) Member States are facing?**

Finally, all these considerations might also serve to reflect on the current policy EU framework of flexicurity.

**Discussion point 6: Is there a need to adjust or complement the current EU policy framework of flexicurity – the Common Principles, the components of flexicurity and the proposed flexicurity pathways?**

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