

## **Flexicurity: the new cure for Europe's labour market problems ?**

### **Introduction**

In the last two years, 'flexicurity' has become a core element of the European debate on social and economic policies in general and employment policies in particular. The European Commission has emerged as the main promoter of flexicurity, and following the Commission's lead and reacting to its initiatives, the other European actors, including the European Parliament, the European Council and the European social partners, have also developed their own positions on the issue. As a result, whereas until recently the concept of flexicurity was discussed largely in small academic circles, today it is at the top of the European agenda.

Flexicurity is emerging after decades of European integration characterised by a fundamental asymmetry between 'negative integration', i.e. measures aimed at deregulation and eliminating national-level obstacles to the 'four freedoms' (free movement of capital, goods, services and people) and at fostering competition, and 'positive integration', i.e. the development of common European policies to shape the conditions under which markets operate and to promote social protection and equality (Scharpf, 1998: 157-160). More and more, however, negative integration has limited the range of policy instruments available to national policy-makers and hence their control over their economy as well as over their social and labour market systems. As a result, negative integration has important social consequences in the Member States (Scharpf, 2002 and 2007). This has also affected public opinion regarding

the (lack of a) social dimension of European integration as indicated by, for example, the French and Dutch rejections of the Constitution. Indeed, flexicurity seems to be one of the ways in which the Commission tries to redress this perception.

This paper discusses the emergence of flexicurity in the European Commission's employment discourse, the reasons why the Commission has embraced flexicurity and what meaning it has given to this concept, and the extent to which it has managed to create a European consensus on the issue. In the next section a brief account is provided of the origins of the flexicurity concept. Section 2 will discuss the European Commission's position on flexicurity. Section 3 discusses to what extent the Commission's position may become a consensual position for European reform, by reviewing the reactions of other European actors to the Commission's position. The last section presents some conclusions.

## 1. Origins of the flexicurity concept <sup>(1)</sup>

The concept of flexicurity was first employed in the mid-1990s in the Netherlands, in the context of the preparation of the Dutch Flexibility and Security Act and the Act concerning the Allocation of Workers via Intermediaries (Wilthagen and Tros, 2004; van Oorschot, 2004). These two acts aimed '... to inject additional flexibility into the labour market by relaxing dismissal laws and the rules to start a temporary work agency on the one hand, while generating a higher level of security for employees in flexible jobs on the other' (Wilthagen *et al.*, forthcoming). They were a typical product of the Dutch Polder Model as well as the 'purple' (labour-liberal) coalition government of the 1990s, aiming to reconcile the interests of employers and workers, strengthening both competitiveness and protection. As a result, the Dutch flexicurity model was born. Dutch flexicurity promotes the use of atypical, flexible types of employment; at the same time it provides such flexible types of employment with similar rights concerning working conditions and social security as standard employment.

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<sup>1</sup> This section is to a large extent based on Keune and Jepsen (2007).

In subsequent years, Denmark was discovered as an alternative to the Dutch flexicurity model. The Danish flexicurity model, rather than being concerned with atypical types of employment, builds on (i) flexible standard employment, resulting from low employment protection; (ii) extensive unemployment benefits providing income security to the unemployed; and (iii) active labour market policies aimed at skill upgrading and activation of the unemployed (Madsen, forthcoming). What the models share is that, in both cases, they emphasise the importance of social dialogue as a means of devising and legitimising flexicurity policies. These two national cases have aroused interest in flexicurity on the part of both the academic community and, as will be discussed below, politicians and policymakers. This interest stems to a large extent from the fact that both countries have managed to improve their labour market situation remarkably since the mid-1990s, reducing unemployment rates to the lowest and employment rates to the highest levels in Europe (<sup>2</sup>).

Another reason for this growing interest in flexicurity is that it constitutes an alternative to the (largely bankrupt) neo-liberal view of the labour market which dominated the debate during much of the 1980s and 1990s. Exemplified by the OECD Jobs Studies (OECD, 1994), this view argued for extensive deregulation and flexibilisation of the labour

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<sup>2</sup> It is questionable, though, to what extent the flexicurity models of the two countries have led to successful labour market developments. Dutch employment and unemployment rates are favourable largely because of a high share of part-time employment (now close to 50%): when calculated in full-time equivalents the Dutch employment rate is actually similar to the German rate and below that of countries like Spain, France or Greece (WRR, 2007: Table 2.2). And in the Danish case the importance of the country's flexicurity model seems overrated. Indeed, it is inevitably an over-simplistic undertaking to seek to explain labour market success or failure solely by the type of labour market regulations. More complex approaches, taking into account elements like macro-economic conditions, wage policies, fiscal policies, industrial relations systems and others, are required. For examples of such more complex explanations of the Danish success and revival since the mid-1990s, see Campbell *et al.* (2006) and Larsen (2002).

market, starting from the assumption that, by and large, all forms of employee protection and social security interfere with the proper functioning of the labour market and therefore, in the end, negatively affect economic growth and employment creation. However, by the end of the 1990s, the fallacy of this view had become only too apparent and the OECD retracted many aspects of its radical stance; in particular, it now accepts that there is no clear relation between the level of employment protection in a country and its level of unemployment (OECD, 2006: 96-100 and 1999). Indeed, today the OECD also hails the success of the Dutch and Danish labour markets and refers positively to the Danish flexicurity approach.

In spite of all the attention given to flexicurity, the concept remains quite ambiguous and disputed. Possibly the best-known definition comes from Wilthagen and Tros who see flexicurity as ‘...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 and social security – notably for weaker groups in and outside the labour market, on the other hand’ (Wilthagen and Tros, 2004: 169). This definition leaves a lot of scope for interpretation. For example, it does not prioritise different types of flexibility over others or specify how much flexibility or security is adequate (<sup>3</sup>). Hence, this definition can in principle cover a broad range of labour market models or reforms. In addition, others employ quite different definitions. For example, for Auer (2005), flexicurity basically refers to protected mobility, while for many, flexicurity has become a synonym for the Danish labour market model.

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<sup>3</sup> The types of flexibility and security generally included in the flexicurity discussion are: internal flexibility, external flexibility, functional flexibility, wage flexibility, job security, employment security, income security and combination security.

## 2. The European Commission and flexicurity

### 2.1 *Flexicurity at the centre of the Commission's employment policy*

Since 2006, flexicurity has moved to the centre of the European Commission's employment policy. The Commission is following a comprehensive and multifaceted strategy to advocate flexicurity and has underlined its corresponding commitment in numerous documents, conferences and public statements. In the past two years, the Commission has organised a large number of summits, conferences and seminars on flexicurity. Furthermore, the Commission's 2006 and 2007 Employment in Europe Reports devote an important part of their analysis to flexicurity (CEC, 2006a and 2007a). Flexicurity is also at the heart of the Commission's Green Paper on labour law, which '... looks at the role labour law might play in advancing a "flexicurity" agenda' (CEC, 2006b: 4). Moreover, in June 2007 the Commission published its flexicurity communication (CEC, 2007b), representing its most comprehensive effort to outline its view, even including a set of 'common flexicurity principles' which were proposed to the Council for adoption. Finally, flexicurity has become the core concept in the employment guidelines of the European Employment Strategy (EES) proposed by the Commission for 2008-2010 (CEC, 2007c).

Indeed, the Commission has embraced flexicurity as a cure for Europe's labour market problems, considers it key to achieving full employment, and sees it as a means of combining economic and social objectives. Along similar lines to Wilthagen and Tros (2004), it defines flexicurity as '...a policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labour markets, work organisations and labour relations on the one hand, and security – employment security and income security – on the other' <sup>(4)</sup>. Such a strategy is said to be necessary first of all to increase the adaptability of enterprises and workers to the changes in the global economy. This requires, the argument goes, a more flexible labour

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<sup>4</sup> [http://ec.europa.eu/employment\\_social/employment\\_strategy/flex\\_meaning\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/flex_meaning_en.htm).

market, combined with levels of security that address the new needs of employers and employees simultaneously. For companies this means they ‘...need to be able to adapt their workforce to changes in economic conditions. They should be able to recruit staff with a better skills match, who will be more productive and adaptable leading to greater innovation and competitiveness’ (CEC, 2007b: 4). For individuals, it is argued that they ‘... increasingly need employment security rather than job security, as fewer have the same job for life’ (ibid.). Employment security is then defined as the possibility of finding a job at every stage of active life and the prospects for career development in a quickly changing economic environment which includes more frequent transitions between jobs and between different labour market states. A second rationale put forward for flexicurity is the reduction of labour market segmentation and the more even spread of the benefits of prosperity among well-protected insiders and marginalised outsiders (ibid.).

The attention paid to the relation between flexibility and security is not a novelty in the EES. In the first employment guidelines of 1998, the social partners were already invited to negotiate agreements to modernise the organisation of work with the aim of making undertakings productive and competitive and achieving the required balance between flexibility and security <sup>(5)</sup>. Also, in the 2003 guidelines it was argued that the right balance between flexibility and security will help support the competitiveness of firms, increase quality and productivity at work and facilitate the adaptation of firms and workers to economic change (Council of the European Union, 2003). Finally, in the 2005 guidelines, guideline 21 called upon the Member States to promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners (Council of the European Union, 2005) <sup>(6)</sup>.

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<sup>5</sup> [http://ec.europa.eu/employment\\_social/employment\\_strategy/98\\_guidelines\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/98_guidelines_en.htm)

<sup>6</sup> One could also argue that the framework agreements negotiated by the European social partners in the second half of the 1990s and subsequently translated into

What is new, however, is that flexicurity is now put at the centre of the EES and is being presented as a comprehensive reform strategy. This flexicurity strategy is argued to have four main components (CEC, 2007b: 6): (i) flexible and reliable contractual arrangements through modern labour laws, collective agreements and work organisation; (ii) comprehensive life-long learning (LLL) strategies; (iii) effective active labour market policies (ALMP) that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs; and (iv) modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility. In addition, the Commission argues that the involvement of the social partners in designing flexicurity policies is crucial for their success. It also underlines that flexicurity is not about one single model but that it should be shaped according to particular national situations. In this way, like soft regulation in general, it aims to strike a balance between European integration and deep-rooted and legitimate national diversity by encouraging convergence of objectives, performance and broad policy approaches, but not of specific programmes, rules or institutions (Zeitlin, 2005: 448).

Finally, as part of its flexicurity communication, the Commission proposed a set of eight flexicurity principles which should guide the implementation of flexicurity-oriented reforms in the Member States. They summarise its flexicurity position in very broad and non-specific formulations. These principles were presented to the Council for adoption.

## *2.2 Disentangling the Commission's flexicurity concept*

The Commission's flexicurity discourse as summarised above remains quite abstract and ambiguous. This is understandable in the sense that it aims to appeal to a broad range of actors with differing interests and ideas, as well as to 27 countries which demonstrate substantial heterogeneity in

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European directives (i.e. the parental leave directive of 1996 (96/34/EEC); the part-time work directive of 1997 (97/81/EEC); and the fixed-term work directive of 1999 (1999/70/EEC) basically concern trade-offs between flexibility and security (Council of the European Union, 1996, 1997 and 1999).

terms of labour market institutions and outcomes. However, it is also highly problematic in that the concept and its components are wide open to multiple interpretations. Indeed, what exactly are, for example, flexible and reliable contractual arrangements, modern labour laws, or modern social security systems? Clearly, the Commission envisages a labour market where there are frequent transitions of workers between jobs and between labour market states and where their security derives from support in fostering employability, active labour market policies aimed at making transitions run smoothly, and social security support during periods without employment. But how is this put into practice and translated into policy implications?

First of all, the Commission argues for less job security (in terms of employment protection legislation) but more employment security: 'The main thrust of the EU recommendation on flexicurity is to encourage a shift from job security to employment security flexicurity' (CEC, 2006a: 78). It argues that 'Whereas some workers experience high flexibility and low security, others are in contractual arrangements which discourage or delay transfers. This is particularly the case with strict employment protection legislation (EPL) against economic dismissal. (...) When deciding whether to recruit new staff, firms will take into account the likelihood that high dismissal costs will be incurred in the future' (CEC, 2007b: 6-7). Indeed, EPL is not considered as an important element of security for workers, but rather as an obstacle to flexibility.

Secondly, the call for flexible and reliable contractual arrangements also points towards flexibilisation through the 'normalisation' of so-called 'atypical' or flexible contracts. At the same time, however, such contracts should be made less precarious by ensuring access to training and to the social security system (CEC, 2007b).

Thirdly, security, it is argued, should be achieved by providing people with employment security and income security. Employment security should come from more life-long learning, i.e. training to keep skills up-to-date and to develop talents, and more and more efficient active labour market policies, largely taking the form of support in finding (new) employment. But while in general it is true that training and job search

assistance can improve the likelihood of finding employment, it remains unclear to what extent they provide security in this respect. This is also because this approach does not seem to include any notion of rights (e.g. an individual right to training).

Income security, then, refers to the provision of adequate unemployment benefits if people were to lose their job for a period of time (CEC, 2007d: 11). This is possibly the most ambiguous element of this view. On the one hand the Commission claims that good unemployment benefit systems are necessary to offset negative income consequences during job transfers; but at the same time it argues that unemployment benefits may have a negative effect on the intensity of job search activities and may reduce financial incentives to accept work.

In an attempt to move beyond the analysis of the Commission's discourse, it is useful to consider the instances where the Commission in fact makes policy recommendations to individual Member States on flexicurity policies. The Commission provided such recommendations in its proposals for the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies (CEC, 2007e). There is no space here to discuss this document in detail but an analysis of the employment-related recommendations results in the following picture.

Where EPL and flexible contracts are concerned, the Commission advises a number of countries to review employment protection legislation with a view to reducing labour market segmentation (i.e. to reduce employment protection) and increasing the use of flexible contracts. However, in no country does it recommend an increase in employment protection, suggesting that even in the countries where it is lowest its level remains adequate. Even in for example Estonia, known for a very flexible labour market, the Commission recommends reducing labour market rigidities by means of urgent progress towards labour law modernisation and by promoting flexible forms of work (CEC, 2007e).

In most countries the document recommends a strengthening of activation policies, active labour market policies and life-long learning. This clearly underscores the focus on employment security. The case of

unemployment benefits is different. Although in its more general statements like the above-discussed communication the Commission calls for adequate unemployment benefits, in its country recommendations there is not one case where it calls for the improvement of such benefits, even though in a number of countries they are clearly very minimal in terms of replacement rates, coverage or duration. It does in some cases call for a review of benefits to improve incentives to work (e.g. Poland), or for a tightening of the conditions for early retirement (e.g. Austria).

Hence, these recommendations confirm the Commission's flexicurity vision: flexibility should be provided by low EPL and easy use of flexible contracts, while security should derive from employment security, i.e. active labour market policies and life-long learning. Its call for modern social security remains vague and underspecified, and when it results in a practical translation this is only towards reducing and never toward increasing benefits. Hence, the emphasis in the Commission's conceptualisation is first and foremost on increasing flexibility, while security remains much less developed (see also Keune and Jepsen, 2007).

Moreover, while the Commission claims that there is not one model for flexicurity, it seems to have a well-defined idea of how labour markets should be regulated. Indeed, it does not discuss alternative models or varieties of flexicurity. In the communication it does discuss a number of possible pathways towards flexicurity, with each of four pathways addressing a set of typical labour market problems and their solution. These pathways however seem to be a set of remedies aimed at bringing quite different labour markets closer to the Commission's general model.

### **3. A European consensus?**

The European Commission, as mentioned above, has been the main driver of the flexicurity debate in Europe and has made an enormous effort to promote its concept of flexicurity and to achieve a European consensus on the issue. Here we will briefly consider the reactions of some of the key European players, i.e. the Council, the European Parliament (EP) and the European social partners, to the Commission's point of view. The goal is not to discuss these views in detail but rather to determine whether a European consensus on flexicurity is in the making.

First of all, it should be underlined here that the Commission has undoubtedly been successful in setting the agenda where flexicurity is concerned. Flexicurity is at the heart of today's European labour market debate, it is the subject of many political and academic events and debates, and it is widely accepted to be an issue of key importance. Nevertheless, the way the concept is understood and translated into policy by different European actors differs substantially.

Where the Council is concerned, it adopted a document with eight flexicurity principles, aimed at framing national reforms. The Council's principles are fairly similar to those proposed by the Commission and represent an over-generalised summary of the Commission's flexicurity discourse. Importantly, though, the Council's principles are indeed similar but not identical to those proposed by the Commission. The major difference is that the Council included a statement which contradicts the Commission's drive for flexibility, in particular in terms of contracts and employment protection: 'The inactive, the unemployed, those in undeclared work, in unstable employment, or at the margins of the labour market need to be provided with better opportunities, economic incentives and supportive measures for easier access to work or stepping-stones to assist progress into *stable and legally secure* employment' (Council of the European Union, 2007: 5, emphasis added). This represents a clear departure from the Commission's view that EPL should be low and from its acceptance of flexible contracts (<sup>7</sup>). This is further underlined by the emphasis the Member States placed earlier on standard instead of atypical employment relationships: 'The Member States are called upon to strengthen standard working relationships in accordance with their national practice and to limit their circumvention by atypical employment relationships' (<sup>8</sup>).

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<sup>7</sup> Also, although the adoption of the common principles gives momentum to the Commission's drive for flexicurity, these principles at the same time remain extremely general and do not commit the Member States to anything very specific.

The European Parliament drew up a comprehensive opinion on the Commission's communication (European Parliament, 2007). In this opinion it takes a number of positions that contradict the Commission. Possibly the most important one concerns EPL. The Parliament strongly states that the view of the Commission is one-sided and too focused on flexibility. Also, it argues for simultaneously improving employment security and job security and for maintaining the traditional model of open-ended contracts. One of the reasons it gives for this view, in line with Streeck's idea of 'beneficial constraint' (Streeck, 1997), is the fact that job protection and longer-term employment relationships act as incentives for firms to invest in human resources, which in turn is good for productivity and innovation (European Parliament, 2007). Flexibility, then, should be achieved rather through raising education, expanding training and apprenticeship programmes, policies against discrimination, removing obstacles to mobility, and policies supporting transitions (ibid.). Finally, the European Parliament argues that flexicurity requires a macro-economic framework that supports job creation. Clearly the position of the European Parliament differs substantially from that of the Commission on crucial points.

As far as the social partners are concerned, the position of BusinessEurope, the largest European employers' organisation, is very similar to that of the Commission. It argues that flexicurity should consist of flexible labour law and a variety of contracts; active labour market policies and life-long learning; and unemployment benefit systems that reduce unemployment periods to a minimum <sup>(9)</sup>. BusinessEurope also warns that flexicurity should not only be about security.

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<sup>8</sup> Chair's conclusions from the Informal Meeting of Ministers for Employment and Social Affairs, Berlin, 18-20 January 2007 ([http://www.eu2007.de/en/News/Press\\_Releases/January/0119BMAS1.html](http://www.eu2007.de/en/News/Press_Releases/January/0119BMAS1.html)).

<sup>9</sup> Intervention by Mr. Philippe De Buck, BusinessEurope Secretary General at the Commission Stakeholder Conference on Flexicurity, 20 April 2007 ([http://www.ec.europa.eu/employment\\_social/employment\\_strategy/pdf/flex\\_de\\_buck\\_en.pdf](http://www.ec.europa.eu/employment_social/employment_strategy/pdf/flex_de_buck_en.pdf)).

The European Trade Union Confederation (ETUC) reasons differently, however. It argues in a position paper that business in Europe already enjoys high adaptability, that the European economy is already flexible and that job creation has the upper hand over job destruction (ETUC, 2007). Rather, the ETUC identifies the prevalence of precarious employment and excessive flexibility as key problems and puts forward the improvement of the quality of jobs as a key objective. Also, like the European Parliament, it argues for employment security as a complement to, rather than an alternative for, job security, for open-ended contracts as the general rule and for upgrading the rights of atypical workers. Where labour market policies are concerned, the ETUC argues for a high level of benefits combined with active labour market policies, including training, as well as for including groups presently not covered in social security schemes (*ibid.*). High benefits and active labour market policies, it maintains, provide security as well as being positively associated with labour market participation. Finally, the ETUC argues for the integration of flexicurity policy with growth and employment creation-oriented macro-economic policy, given that flexicurity by itself does not have employment-creating capacities.

The above descriptions do not do justice to the more comprehensive analysis and positions of the various European actors. They do, however, show that there is no European consensus on flexicurity. Whereas the driver of the debate, *i.e.* the European Commission, has been very successful in pushing the issue to the top of the European agenda, there are major differences as concerns the understanding of the flexicurity concept as well as its policy implications. The Council, the European Parliament and the ETUC all have positions that deviate from that of the Commission. In particular, they reject the Commission's one-sided emphasis on increasing flexibility through restricted job protection and on the normalisation of flexible contracts, but its concept of modern social security systems is also rebuffed and the lack of a link with employment-friendly macro-economic policies is underlined, as is the absence of attention to productivity and innovation-friendly policies.

## Conclusion

From being a concept discussed in small academic circles, flexicurity has in recent years moved to the centre of the political debate in Europe. This is to a large extent due to the fact that the European Commission has emerged as the major promoter of flexicurity and has been using its substantial agenda-setting capacity to make it a core element of the European labour market debate. It has given new impetus to this debate, and today flexicurity is widely considered to be an issue of major importance for labour market reform in Europe.

The European Commission proposes flexicurity as an innovative approach towards a balanced increase of both labour market flexibility and security, which it considers indispensable for the achievement of full employment, for the reduction of labour market segmentation and for the reconciliation of economic and social objectives. Four components make up the core of the Commission's view: flexible and reliable contractual arrangements; comprehensive life-long learning strategies; effective active labour market policies; and modern social security systems. A closer look, however, shows that in the Commission's view flexibility should be provided by low job protection and the normalisation of flexible contracts, while security should derive from employment security, i.e. active labour market policies and life-long learning. Its call for modern social security remains ambiguous, and when it results in a practical translation this is only towards reducing and never toward increasing benefits. Hence, the emphasis in the Commission's conceptualisation is first and foremost on increasing flexibility, while security remains much less developed.

It comes as no surprise that the Commission's view of flexicurity has not created a political consensus. With its move to the centre of the political debate, flexicurity has also become strongly politicised and there is an ongoing struggle between political actors to determine its precise definition and policy implications. Whereas the European employers are basically on the same wavelength as the Commission, the Council, the European Parliament and the European trade unions one way or another contest the Commission's view. At the same time, these critics also call for flexicurity but give it a different shape. Indeed, while all agree on the

importance of flexicurity, it remains wide open to interpretation because of its ambiguous nature. As a result, different actors put forward quite different versions of flexicurity, using it as a banner to promote quite traditional views on labour market reforms.

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