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Flexicurity – a state-of-the art review

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Abstract

The notion of 'flexicurity' promises to overcome the tensions between labour market flexibility on the one hand and social security on the other hand by offering 'the best of both worlds'. In this review the development of the concept will be set against the background of changed economic circumstances in the last two decades. The principal components of flexicurity are presented, followed by a review of 'real worlds of flexicurity' in selected European countries, with Denmark and the Netherlands as the most prominent examples. The subsequent section considers the transferability of flexicurity policies across borders. Finally, we concentrate on collective actors involved in promoting the idea of flexicurity and conclude with a discussion of some tensions within and criticisms of the concept.

Keywords

Flexicurity; Labour Market Policy; Unemployment benefits; Employment Protection

Introduction[1]

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

Further tensions arise between the drive towards increasing employment and flexibility and the unintended effects of national welfare state programmes, such as early retirement schemes, unemployment, sickness or incapacity benefits. Lower unemployment does not necessarily imply employment growth but possibly rising non-employment, involving high social opportunity costs in terms of productivity losses and additional strains on social security systems. At the same time, closing off such routes may come at a high price in terms of socio-economic security.

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

In what follows we review literature on four aspects of the debate on flexicurity. The first part discusses the development of the concept which has to be set against the background of changed economic circumstances in the last two decades. Secondly, we focus on the components of flexicurity in more detail, followed by a review of 'real worlds of flexicurity' in selected European countries, with Denmark and the Netherlands as the most prominent examples. The subsequent section considers the portability of flexicurity policies across borders. Finally, we concentrate on collective actors involved in promoting the idea of flexicurity at European, supra-national and national level. We conclude with a discussion of some tensions within and criticisms of the concept.

The Concept of Flexicurity

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

However, the European Commission (2007: 5) has criticized that often 'policies aim to increase *either* flexibility for enterprises *or* security for workers; as a result they neutralise or contradict each other' (emphasis in original). Flexicurity principles might be seen as a response to this one-sided approach, satisfying the needs of both employers and workers. The concept rests on the assumption that flexibility and security are not contradictory but complementary. From a theoretical point of view flexicurity polices might be characterised as a form of synchronization of economic and social policy, a post-deregulation alternative (Keller and Seifert, 2004) or 'third way' strategy between the flexibility generally attributed to Anglo-Saxon labour markets and strict job security characterizing (southern) European countries (OECD, 2004); or between the flexibility of liberal market economies and the social safety nets of the traditional Scandinavian welfare states (Madsen, 2002a).

The idea of flexicurity dates back to developments and debates in two European countries in particular, i.e. Denmark and the Netherlands. According to some observers, the concept of flexicurity was first used by the Dutch sociologist Hans Adriaansens in the mid-1990s in connection with the Dutch Flexibility and Security Act and the Act concerning the Allocation of Workers via Intermediaries (van Oorschot, 2004b; Wilthagen and Tros, 2004). Arguably, the neologism was picked up by academics in the Netherlands (e.g. Wilthagen, 1998; Muffels *et al.*, 2002) and subsequently in other European countries, such as Denmark, Belgium or Germany, before reaching the European Commission's agenda as well as other European actors (Keune and Jepsen, 2006). Another reading implies that the origins of flexicurity go back to labour market policy reforms introduced by the Danish social-democratic government in 1993 and subsequent years. The Dutch and Danish approaches actually represent two different notions of flexicurity (see part 3 below), having influenced debates in other European countries, rendering a controversy over the exclusive origins of flexicurity somewhat futile.

There is no universally agreed definition of flexicurity. Some authors define the concept rather broadly, for example, as a policy aimed at achieving 'a new balance between flexibility and security' (Klammer and Tillmann, 2001, p. 15) or as 'secured flexible employment' by reconciling labour market flexibility with measures to counter growing social exclusion and the emergence of a class of working poor (Ferrera *et al.*, 2001, p. 120). The European Commission defines flexicurity simply as 'an integrated strategy to enhance, at the same time, flexibility and security in the labour market' (European Commission 2007, p. 5).

The absence of a common definition is underlined also by the fact that at times flexicurity has been used to describe a type of public policy and at other times as a condition of a labour market, even by the same authors. For example, Wilthagen and colleagues regard flexicurity as a deliberative and coordinated strategy for weaker labour market groups (see, e.g., Wilthagen and Tros, 2004, p. 169; Wilthagen and Rogowski, 2002, p. 250):

> *'A policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organisation and labour relations on the one hand, and to enhance security – employment security and social security – notably for weaker groups in and outside the labour market, on the other hand'.*

On the other hand, Wilthagen and Tros (2004, p. 170) suggest a more institutional definition:

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

Turning to its components, four different types of flexibility and security have been identified respectively. With reference to Atkinson's (1984) 'flexible firm' model, Wilthagen and Tros (2003; 2004) distinguish between:

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

Of course, flexibility can be understood not only from the perspective of employers but also from an employee angle. Accordingly, distinctions have been made between 'active' and 'passive' types of flexibility (Wilthagen, 2002; 2007) or flexibility for workers versus flexibility for employers (Auer, 2006; Chung, 2006; 2007). Whereas the latter is oriented towards the adaptation of working conditions (e.g. via the deregulation of labour markets), the former addresses needs of employees (e.g. improving the reconciliation between work and family obligations).

Similar to types of flexibility, four different forms of security are usually presented in the literature. Again, Wilthagen and Tros (2003; 2004) distinguish between:

- job security: the certainty of retaining a specific job (with the same employer), e.g. via employment protection legislation;
- employment security: the certainty of remaining in paid work (but not necessarily in the same job or with the same employer), e.g. via training and education (and high levels of employment);[2]
- income security: the certainty of receiving adequate and stable levels of income in the event that paid work is interrupted or terminated;
- combination security: the reliance on being able to combine work with other – notably family – responsibilities and commitments, often discussed under the heading of 'work-life balance'.

Flexicurity policies can be analysed as types of combinations between these different forms of flexibility and security which might involve individual workers, groups of workers, or certain sectors or the economy as a whole. As a heuristic tool for classifying flexicurity polices Wilthagen and Tros (2004, p. 171) construct a matrix using the four dimensions of flexibility and security respectively. For instance, national labour markets might be categorised in accordance with particular combinations between flexibility and security (European Commission 2006a). In other words, the matrix could serve as a building block for creating a typology of national (or sectoral) flexicurity profiles. However, due to the multi-dimensionality of both components of flexicurity, the data requirements for creating a complete matrix would be highly demanding. Moreover, some commentators have pointed out that the potentially large number of possible combinations between various types of flexibility and security might render flexicurity a vague or ambiguous concept (e.g. Keune and Jepsen, 2006). Others (e.g. Tangian, 2005) have criticised the matrix on empirical grounds, i.e. for ignoring the problem of measuring how much flexibility is traded for how much security, and for focusing on apparent trade-offs and thereby failing to capture policies purely aimed at either security or flexibility.

On the other hand, flexicurity typologies might be constructed based on selected dimensions of flexibility or security respectively. After all, not all associations between security and flexibility are likely or even feasible in practice. Indeed, trade-offs referred to in the literature are frequently not between any type of flexibility and any type of security but between specific combinations, e.g. job security is traded for employment security. For example, the European Commission (2006a) concentrates

on the external-numerical flexibility and income/employment security dimension. Auer and Cazes (2002) present a simple classification of flexicurity arrangements based on the strictness of employment protection and the generosity of unemployment benefits. Tros (2004) makes use of the matrix for classifying different flexicurity policies for older workers.

Diverse labour market problems, policy components and obstacles to more flexicurity

According to the European Expert Group on Flexicurity (2007), one element for the implementation and success of flexicurity policy is a supportive and productive social dialogue between the social partners and public authorities. Recognizing differences in labour market conditions and challenges, the Expert group is less prescriptive in other respects, offering alternative pathways to flexicurity (see also European Commission, 2007: 28-35). These are

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

As their names suggest, these different flexicurity pathways respond to different problems that are visible, to differing degrees, in European labour markets. For example, some countries (or sectors) might be faced with the problem of segmented labour markets, characterized by a large share of 'outsiders' lacking security and limited opportunity to make transitions to more permanent and secure jobs due to the impact of strict employment regulation. Although no country examples are referred to by the Expert Group, such a situation might be regarded as typical for Southern European countries, and the first pathway seems most relevant there. Another challenge might be labour markets with a large share of workers with high levels of job security, especially within large industrial firms, but few opportunities to find new employment in the event of redundancy. Labour flexibility is thus generally confined to the firm level, labour turnover fairly low and long-term unemployment typically high. Such a challenge might be most commonly found in some continental Western European countries, and the second flexicurity pathway is intended to offer a response.

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

incentives. This is coupled with problems of low productivity and high numbers of workers employed in the informal sector.

The flexicurity pathways thus often seem to refer to particular country specific problem profiles that are visible in Europe. This is not said explicitly, however, to avoid European guidance in the domain of flexicurity appearing overly directive. The Expert Group (2007: 4) thus says "Member States will decide for themselves which challenge is most urgent for them, and, not unlikely, they may wish to draw on more than one pathway".

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

- flexible and reliable employment protection arrangements
- comprehensive lifelong learning strategies
- effective active labour market policies
- modern social security systems

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

First, for some time the econometric literature has focused on the relationship between employment protection and labour market features such as unemployment and employment growth. By contrast, welfare state research has turned towards the relevance of labour market regulation for social security only relatively recently (Esping-Andersen, 1999; Bonoli, 2003). This is not the place for an extensive discussion of the advantages and disadvantages of extensive employment protection. Suffice to note that according to analytical evidence strict employment protection appears to reduce the numbers of dismissals but hampers the transition from unemployment to work (OECD, 2007). Arguably it thus contributes to divisions between labour market insiders and outsiders, particularly where regulations differentiate between regular and other forms of employment contracts. Boeri *et al.* (2003) showed that only few countries reduced the strictness of employment protection for regular workers in recent years, while the majority of changes in employment protection took place at the margin. Deregulation at the margin of the labour market tends to favour the creation of segmented labour markets in which employees with atypical contracts carry the burden of adjustment to economic shocks. This has led to more precarious employment, a lack of adequate provision of training for those with atypical contracts, and negative impacts on productivity.

Clearly, the effect of employment protection legislation is contested. Those in favour of liberalization have argued that stringent regulation tends to encourage less dynamic labour markets, worsening the employment prospects of women, youths and older workers. However, whether employment protection reduces labour turnover and prolongs unemployment is debatable. For example, provided that severance payments and advance notice of termination are chosen optimally, Pissarides (2001) argues that unemployment insurance does not hamper job

creation.[3] Moreover, the positive effects of employment protection, such as providing incentives to enterprises to invest in training, promoting loyalty and raising productivity of employees, has been widely acknowledged (European Commission, 2007).

Second, lifelong learning has become another buzzword within the current EU debate on flexicurity. High participation in lifelong learning is positively associated with high employment and low long-term unemployment (European Commission, 2006a). Encouraging flexible labour markets and ensuring high levels of security will only be effective if workers are given the means to adapt to change and to make progress in their career. Ongoing education and training is seen as the key to employability and adaptability throughout an individual's life course, thereby also contributing to the high productivity economic model the EU aspires to. Investment in human resources over the life course and strategies of so-called active ageing are strongly promoted by the EU as a response to rapid technological change and innovation in the face of demographic pressure. It is seen as increasing both the competitiveness of firms and the long-term employability of workers (European Commission, 2007).

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

The flexicurity debate emphasizes the interactions between these policies and institutions; and flexicurity might be seen as an integrated approach aiming to optimise the combination (or trade-off) between these four components. For example, a possible reform strategy could be to 'trade' more flexible employment protection for improved social rights to the unemployed both in the form of higher income compensation and better access to active labour market policy. However, paths towards flexicurity policies might be hampered by existing policy mixtures or trade-offs. For example, many countries with strict employment protection tend to have less generous unemployment benefit programmes, while 'flexicurity countries' adopt low levels of employment protection in combination with relatively generous unemployment benefits. Boeri *et al.* (2006) examined this trade-off empirically for 28 countries and found that such trade-offs represent fairly stable politico-economic

equilibria. Calls for more labour market flexibility by reducing employment protection for regular contracts have therefore proven difficult to achieve politically. However, Boeri *et al's* (2003; 2006) theoretical assumptions and empirical analyses suggest that flexicurity policies consisting of less employment protection and more generous unemployment benefits should emerge in countries with less compressed wage structures. Accordingly, consensus in favour of employment protection reforms is feasible when labour market flexibility is traded with unemployment insurance which redistributes in favour of the low-skill segments of the labour force.

Real worlds of flexicurity

As quasi prototypes of flexicurity, policies pursued particularly in Denmark and the Netherlands have been portrayed as having successfully achieved new combinations between (greater) labour market flexibility without compromising social protection. The experience in these two countries will thus be described in some detail, followed by a review of flexicurity-type policies other European countries.

Flexicurity in Denmark

The Danish model of flexicurity rests on the combination of three elements: flexible labour markets, generous unemployment support, and a strong emphasis on activation. This combination has become known as the 'golden triangle' of Danish labour market policy (see, e.g., Madsen, 2004, p. 101).[4] In a nutshell, the model promotes high occupational and geographical labour mobility via low employment protection, compensated by generous unemployment benefits and ambitious active labour market policies aimed at skill improvement and activation of the unemployed. Using Wilthagen's matrix (2007), the Danish model combines high external-numerical flexibility (little protection against dismissal) with high levels of income security (generous unemployment benefits) and high levels of employment security (labour market policy based on a right for retraining). Crucially, the concept of job security is replaced by employment security (European Commission, 2006a). Danish flexicurity policy might also be described as embracing all four components singled out by the EU, as it brings together flexible work arrangements with effective social security, active labour market policies and lifelong learning. Illustrative are policies introduced in the first half of the 1990s (and subsequently revised and scaled back), such as paid leave arrangements for childcare and sabbaticals, as well as for continued and supplementary professional development and training. The flexicurity idea here is that such policies can be beneficial to the firm, employees (on training leave), as well as unemployed persons because employers receive a grant which covers the cost of hiring an unemployed person replacing employees on leave (Wilthagen, 2007).

The role of the social partners in this model is pivotal. The liberal employment protection system with its relatively easy hiring and firing of workers became acceptable for trade unions due to the existence of a generous and state-supported

but mainly trade-union based unemployment insurance system. *Vice versa*, for employers generous unemployment benefits became acceptable as they facilitate flexible responses to shifting market demands by laying-off workers (Clasen and Viebrock, 2008). The third element in the form of active labour market policy is crucial as it supports the flow of workers between unemployment and employment by upgrading the skills of unemployed people through training.

As a model associated with a positive labour market performance it has attracted considerable international interest from policy makers and academics alike. Since the early 1990s, employment rates in Denmark in both the public and the private sector increased substantially and unemployment declined from more than 12% in 1993 to just about 5% in 2001. This trend has been attributed to the successful combination of flexibility measures, often linked to a globalized liberal market economy, and a traditional Scandinavian welfare state with its extensive systems of social security protecting citizens from the negative consequences of structural changes – hence 'flexicurity'. Another notable feature of the Danish system is the avoidance of a low-wage segment of the labour market (the 'working poor') which is typical for many liberal economies such as the US.

Flexicurity in the Netherlands

The key feature of Dutch flexicurity is the combination of atypical, flexible types of work with social security rights which are similar to those for persons in standard employment. In short, the approach can be described as 'normalising non-standard work' (Visser, 2002; Wilthagen, 2007, p. 3).[5] Measures have been taken to spread work, care and education more evenly over the lifecycle. A fiscally supported voluntary savings scheme enables workers to save a percentage of their wage to cover periods of leave for care, education or other reasons (European Commission, 2006b). Active labour market programmes have been extended and regulations have been introduced to provide temporary agency workers with employment protection, rights to training, wage guarantees and supplementary pensions (Wilthagen, 2007). In short, the position of workers on temporary contracts has been strengthened without compromising labour market flexibility (European Commission, 2007).

The Dutch model of flexicurity has to be understood also in connection with changes to the system of dismissal law and regulation. In the Netherlands a rather complicated dual system of dismissal law existed which granted strong protection for workers employed under traditional employment contracts while workers in flexible employment, in particular temporary agency workers, were faced with a high level of insecurity. Aiming to reconcile the interests of employers and workers, and strengthening both competitiveness and social protection (Keune and Jepsen, 2006), in 1997 the so-called 'Flexibility and Security Bill' addressed this problem, introducing flexibilization (in the form of a slight reduction of dismissal protection in standard employment), far-reaching liberalization of the temporary work market, and improving types of security (e.g. more employment and employability security for non-standard workers). However, critics have pointed out that whereas part-time

workers have gained from better social protection, other groups such as so-called 'flex-workers' have remained disadvantaged (see van Oorschot, 2004a).

Recognizing once again the four components of flexicurity as outlined by the European Expert Committee on Flexicurity (2007), there is perhaps less emphasis on activation strategies than in the Danish case, and a more important role for other aspects such as temporary work agencies. However, as in Denmark, flexicurity policies have been portrayed as a prime cause for the positive labour market performance in the Netherlands (see, e.g. OECD, 2004). Similarly, the role of the social partners and social dialogue in developing and legitimising flexicurity policies has been emphasized in both countries (see, e.g., Visser, 2003; Wilthagen, 1998).

In sum, both Denmark and the Netherlands illustrate that alternative ways of combining flexibility with security are not only theoretically but also practically feasible. It has to be noted, however, that what is now called 'flexicurity' is not the result of a rational policy design in either country but the outcome of gradual processes over time (see section 6), as well as political struggles and compromises (Madsen 2002b).

Flexicurity in other European countries

While Denmark and the Netherlands have been at the centre of the debate on flexicurity, many other European countries have introduced policies or initiatives explicitly aimed at reconciling flexibility with security. Clearly, such initiatives cannot be reviewed in full here. However, a few examples from different European regions with different welfare state and labour market regimes have been selected here as illustration of the multiplicity of pathways to flexicurity as suggested by the European Commission. Here we will refer to relevant policies in Austria, Central and Eastern European countries, Ireland and Spain.

A frequently cited country which has introduced successful flexicurity policies is Austria (European Commission, 2006b). The Austrian approach is characterized by average levels of employment protection and unemployment benefits relative to the EU-15 countries, relatively high spending on active labour market programmes and a reliance on decentralized public employment services. Similar to other countries, the trend in Austria has been to shift an erstwhile emphasis on job security to employment security. Auer (2002) claims that despite Austria's tighter employment protection system and a lower generosity of unemployment benefits, the actual trade-off between employment protection at firm level and social protection at macro level seems to work just as well as in Denmark. One facilitating factor here might be the deeply entrenched social partnership which smoothed the process of labour market adaptation and helped to promote the idea of flexicurity.

Initiatives to increase both flexibility and security have included life long learning measures. For example, in 1998, it was made possible for employees to take paid leave for up to 12 months for further education without additional costs for the employers. Other policies include the right for parents of young children to switch to part-time work, covered by full redundancy protection and the right to revert back to

the previous working time (European Commission, 2006b). Another policy component is the easing of qualifying conditions for severance pay, which itself was reformed. Whereas in the former system workers would lose accumulated rights to severance pay when changing jobs, entitlements within new system are transferable, thus reducing disincentives to labour mobility. Furthermore, Labour Foundations are easing the transition between jobs in case of threatened mass dismissals, applying principles of early intervention and joint action by all public and private parties concerned (European Commission, 2007; OECD, 2006b).

In many Central and Eastern European countries economic recovery has often proved elusive or unsustainable, with negative consequences for employment (Cazes and Nesporova, 2001). Despite important cross-country differences, unemployment is still high and participation rates even declining in some countries. The sudden exposure to global market competition has forced enterprises to rationalise production and contain labour costs. This mainly took place in the form of downsizing, introducing fixed term contracts or resorting to informal employment. Addressing firms' flexibility needs measures were facilitated by still weak or newly established labour market institutions and policies. Tendencies towards increasingly flexible forms of employment and high informal employment and the consequent weakening of workers' employment and social security position put pressure on governments to find a better balance between the flexibility demanded by firms and effective assistance for employees (Cazes and Nesporova, 2003; 2007). The ILO has sponsored a large initiative to spread best practice on flexicurity in transition economies.

Legislative and institutional reform processes were thus influenced by typical Western labour market institutions and policies such as collective bargaining systems, labour taxation, unemployment benefit schemes and active labour market policies. The outcomes have been diverse across transition countries, influenced by economic performance, trade union strength, social dialogue and national cultures. For example, the Baltic States and some Central European countries have implemented flexibility/protection patterns similar to Western Europe, further supported by the EU accession process. By contrast, troubled by military conflicts and economic problems, labour market rigidities in the Balkan countries have persisted, as well as weak employment and income security for workers. Overall, given a low demand for labour and the perception of high job insecurity, there are considerable obstacles towards increasing labour mobility and flexibility in transition countries. Cazes and Nesporova (2003) conclude that stricter employment protection has at times contributed towards improved economic activity and employment performance, and positive effects have been identified for collective bargaining and active labour market policy, but there are indications of labour market segmentation between insiders and outsiders too.[6]

In contrast with transition countries, Ireland's employment growth has been remarkable, both in terms of in part-time and full-time jobs mainly in the private sector (Auer, 2002). Unemployment benefit levels are modest but spending on active

labour market programmes comparatively high, including subsidised employment. Similarly to Austria, Denmark and the Netherlands, public employment service structures have been changed dramatically in a move towards decentralization, localization and greater scope for private placement. Although Ireland has overcome past problems of high unemployment and a slow economic growth, a problem remains in low educational levels of older workers. In 2006 the so-called 'Towards 2016' agreement was reached between the social partners to take up this challenge in a comprehensive way. It identified the need for participation, productivity and activation, with a special focus on the long-term unemployed, youths and those who are furthest from the labour market. Skills upgrading has been aimed at lower-skilled and vulnerable workers. Funding has been increased for workplace learning and tackling illiterate and innumeracy problems (European Commission, 2007). In 2005 a 'National Workplace Strategy' was launched with a view to managing change and innovation in a knowledge-based society. A key focus is on a good co-ordination between the different departments and agencies as well as the social partners with regard to policies of employment, labour market, training, education, social security and enterprise development (Wilthagen, 2007).

Finally, a policy process based on social dialogue facilitating flexicurity policies can be observed in Spain. Going back to the 1980s, reforms of a restrictive system of dismissal protection increased flexibility at the margins through liberalising fixed-term contracts and temporary work agencies, while regulations concerning core jobs remained virtually unchanged. Ensuing employment growth was mainly restricted to the flexible 'outsider' labour market and transitions from fixed-term or part-time to open-ended or full-time contracts remained difficult, thus encouraging segmented labour markets. Fixed-term workers represent about a third of total employment (see European Commission, 2007) and mainly consist of the young. They often receive lower wages and have only limited access to internal further training (Eichhorst and Konle-Seidl, 2005).

The strong growth of fixed-term employment not only gradually transformed the Spanish labour market, it also improved the political influence of fixed-term (and part-time) workers, thereby facilitating attempts at modifying employment protection (Valdés Dal-Ré, 2004). Indeed, subsequent reforms eased dismissal regulations of the insider labour market and introduced security elements for fixed-term employees, albeit not fully overcoming the dual character of the Spanish labour market. For example, following a breakthrough in Spanish industrial relations at the end of 2001 the social partners agreed on the need to reconcile flexibility and security (Valdés Dal-Ré, 2004). Since then policy makers have been able to exploit potential policy complementarities not available before. Most labour market reforms in Spain were formulated in trilateral negotiations and often implied trade-offs, such as easing dismissal protection in exchange for stricter regulation of temporary agency work (Eichhorst and Konle-Seidl, 2005). For example, in May 2006 the social partners signed a comprehensive agreement to curtail the excessive use of fixed-term contracts. Since then employees having signed two or more fixed-term contracts with the same company, and having worked in the same post for more than 24 months,

automatically acquire an open ended contract. In addition, while spending on passive and active labour market policies used to be comparatively low in Spain, activation policies began to be implemented in 2002, stimulated by EU recommendations and funding.

The transferability of flexicurity

The European Commission (2007) argues that a comprehensive flexicurity approach, as opposed to separate policy measures, is the best way to ensure that social partners engage in a broad reform process (European Commission, 2007). Wilthagen *et al.* (2003) identify several mechanisms which would facilitate a wholesale shift towards a broad flexicurity approach, including strategies such as co-ordinated decentralization, flexible multi-level governance, extending the scope of bargaining and 'negotiated flexibility'. Clearly, this is an ambitious policy agenda and, given the rather patchy introduction of particular elements of flexicurity policies reviewed in the previous section, it seems reasonable to ask whether a policy package amounting to a comprehensive flexicurity approach similar to the Danish or the Dutch model is conceivable elsewhere.

The implementation of flexicurity policies can be problematic not least due to the implied increase or shift in government spending. Moreover, as discussed previously, flexicurity polices might clash with existing combinations of forms of flexibility and security which correspond with a political-economic equilibrium (Boeri *et al.*, 2006). Eichhorst and Konle-Seidl (2005) argue that strict employment protection, if existent at the outset, is hard to abolish, and Auer and Cazes (2002) point to national employment systems as considerable sources of inertia. Other challenges include specific national historical legacies, legal traditions, labour market institutions and industrial relations systems.

Some authors go further by drawing attention to specific national mentalities. Klindt and Møberg (2006) cite the example of German employers who spend a significant amount of administrative resources ensuring that flexibly working employees really do work the number of hours contractually required. By contrast, Danish employers apparently entrust their workers with time autonomy. Algan and Cahuc (2006) claim that the Danish flexicurity model would be difficult to sustain in countries which lack a similarly strong 'public-spiritedness' (translated as a low inclination to cheat on public benefit systems). The latter is viewed as a key factor for the implementation of an efficient and generous unemployment insurance system. The authors show that differences in civic attitudes towards government appear to be persistent to change over generations. For example, descendants of immigrants would still display the attitudes of the country of origin of their ancestors through socialization within a society's historical heritage, even when controlling for individual socioeconomic characteristics.

The impact of cross-national cultural differences on the functioning of flexicurity is an intriguing consideration. However, the role of social and public control in countries with generous unemployment benefit systems should not be overlooked. Rather than regarding Danes as culturally different, one could argue that, due to checks on the unemployed and strong benefit conditionality coupled with significant 'activation' pressure, Danish unemployed have little opportunity to defraud. One important aspect for the implementation of flexicurity policies could thus be the role of state capacities of implementing the necessary control and enforcement mechanisms to control for moral hazard in a generous and efficient social security system.

Within the prevailing literature there is an agreement that a pre-condition of flexicurity is its linkage with well-established traditions of social dialogue. For example, in a recent publication on flexicurity the European Commission argues that 'active involvement of social partners is key to ensure that flexicurity delivers benefits for all' (European Commission 2007, p. 9). This raises doubts to the transferability of the model to countries where social partnership is not firmly established and levels of social trust might be low. Moreover, as examples from some continental and southern European welfare states have shown, political support for far-reaching policy reforms is difficult to achieve where insider opposition (due to strong labour market segmentation) reinforces path dependency. As Eichhorst and Konle-Seidl (2005, p. 30) note 'government capacities and social partnership are crucial for designing reforms that exploit complementarities in a way that sufficient support can be generated'. However, as the European Expert Group on Flexicurity (2007) claims, even without a tradition of trust between governments and social partners, it might still be possible to create conditions for agreement by developing policy packages which are broad enough to serve various interests.

The European Union, supra-national debates and social partners

The concept of 'flexicurity' has become central to employment related debates at supranational level, perhaps most evident within the European Union but also within organizations, such as the OECD and the ILO, as will be discussed below. Indeed, while many European member states seem still to be in the process of forming a more articulated opinion on the relatively new concept, the European Commission has become a keen promoter of flexicurity, with particular attention paid to the Danish model which has been referred to as 'an example of how to achieve economic growth, a high level of employment and sound public finances in a socially balanced way' (European Economic and Social Committee, 2006, p. 48).

The 2001 European Employment Guidelines explicitly addressed the goal of 'a better balance between work and private life and between flexibility and security' (Wilthagen and Tros, 2004, p. 168). Employment flexibility has been advocated with reference to economic performance, competitiveness and growth while the need for security is emphasized from a social policy view with respect to preserving social

cohesion within European societies. At the Spring Summit in 2006 the European Commission urged the implementation of a set of common principles of flexicurity, at both Member States and EU level. The concept became regarded as an answer to the EU's dilemma of how to maintain and improve competitiveness whilst preserving the European social model which 'has its foundations in a basic commitment to economic prosperity, social cohesion and solidarity, health-care and education systems that are accessible to all, a broad and reliable social security network and social dialogue' (European Commission, 2006b, p. 15).

The eighteenth edition of the *Employment in Europe* report (European Commission, 2006a) deals in detail with flexicurity and the different flexicurity pathways as outlined above. In 2007 a number of further communications and resolutions relating to flexicurity were issued and several meetings took place at European level. In order to facilitate national debates within the common objectives of the Lisbon Strategy for Growth and Jobs the Commission hoped to define a common set of principles on flexicurity, to be adopted as a non-binding EU policy directive by the European Council by the end of 2007. Some of these principles could are: the promotion of flexible and reliable contractual arrangements; the acknowledgement of specific circumstances, labour markets and industrial relations of the Members States; the aim to reduce the divide between labour market insiders and outsiders; the encouragement of internal as well as external flexicurity, as well as gender equality and a climate of trust and dialogue between public authorities and social partners (European Commission, 2007).

The EU is eager to stress that flexibility is not only in the interest of employers, i.e. increasing productivity and facilitating the adaptation to economic change, but beneficial for workers too as it provides opportunities to combine more easily work with care, education or other non-work activities (Employment Taskforce, 2003). The idea of flexicurity fits in neatly with the revised EU Strategy for Growth and Jobs, also known as the Lisbon Strategy. Facing the challenges of globalization and ageing societies, Member States are urged to modernize their labour markets, making workers and firms respond more quickly to change. At the same time, workers should be offered adequate security to remain in employment, even if companies face restructuring. A strong emphasis is not only placed on the quantitative but also on the qualitative dimension of job creation (European Commission, 2007). Other priorities of the Lisbon Strategy include a high level of workforce training and the promotion of entrepreneurship. More specifically, the particular flexicurity approach adopted by the European Commission resembles the Danish model, i.e. the promotion of a more flexible labour market, relatively low dismissal protection, coupled with good social protection schemes in order to ease the transition between jobs and a pro-active employment and training policy.

Keune and Jepsen (2006) argue that the Commission has embraced flexicurity not only due to the compatibility with its general discourse on employment policy, but also because its self-proclaimed role as disseminator of knowledge and 'best practices' and mediator between divergent interests. Although portraying flexicurity

as a new paradigm in dealing with globalization and balancing the interests of employers and employees, major elements have long been part of the EU's labour market discourse. Furthermore, it has been argued that the Commission's vision of flexicurity is more congruent with its emphasis on economic than social goals, i.e. favouring flexibility over security by promoting mobility, non-standard types of employment, and limited job protection. By contrast, security is achieved as a product of increasing employability by means of life-long learning and activation policies and the modernization of social security in the form of 'make-work-pay' welfare reforms (Keune and Jepsen, 2006, p. 11).

Other supra-national actors, such as the OECD, have entered the flexicurity debate in recent years (OECD, 2004). Traditionally calling for extensive labour market deregulation[7], the concept of flexicurity has arguably contributed to the OECD increasingly portraying social policy as a 'production factor' and employment protection as 'able to resolve certain market imperfections' (OECD, 2004, p. 62). Back in 1994, the OECD Jobs Strategy emphasized the advantages of diverse forms of flexibility and identified the design of unemployment benefit systems in some countries as a hindrance to the efficient functioning of labour markets. By contrast, the revised Jobs Strategy acknowledges that a strong emphasis on labour market flexibility combined with low welfare benefits may imply negative consequences in terms of widening income gaps and furthering labour market segmentation. Moreover, the OECD concedes that well-designed unemployment benefits and activation policies can promote the re-employment of jobseekers (OECD, 2006a). Overall, there is a considerable degree of similarity between the approach adopted by the European Commission and the OECD's revised Jobs Strategy (OECD, 2006c). For example, the development of human capital and labour force skills, a balanced implementation of unemployment benefits and active labour market policies all feature in recommendations by both actors. Moreover, similar to the European Commission's strategy the emphasis is on diverse routes to achieve positive labour market outcomes.

Compared with the OECD, the International Labour Organization (ILO) can be expected to put more emphasis on the security aspect of flexicurity. Indeed, research on flexicurity seems to fit in well with the ILO Employment Sector's 'Decent Work' programme (Cazes and Nesporova, 2003). The organization's own aforementioned flexicurity project on Central and East European transition countries has addressed synergies between social and economic polices and possible trade-offs and/or complementarities. Among the objectives was the development of consensus based employment policies, ensuring a better balance between labour market flexibility and employment security. The intention was to facilitate the implementation of flexicurity approaches in the form of National Employment Action Plans (see foreword by Cazes and Nesporova to Tonin, 2006). Based on promising flexicurity approaches, it is hypothesized that policy makers and social partners in transition countries have a number of policy choices at their disposal. However, despite a certain enthusiasm for the Danish flexicurity model, the ILO remains sceptical about the concept's vagueness and its potential justification for more deregulation. The ILO has in

general taken a more flexible approach to flexicurity, emphasising that flexicurity approaches must be 'context specific'.

Turning to social partners at EU level, BusinessEurope (formerly UNICE), the Confederation of European Business, as well as UEAPME, the employer's organization representing the interests of small and medium-sized enterprises at EU level, have both embraced the idea of flexicurity (Keune and Jepsen, 2006). By contrast, trade unions were initially sceptical due to the fear of atypical work forms spreading in the name of labour market flexibilization. Non-standard employment contracts often do not offer the same working conditions and access to benefits, training and career prospects as open-ended, full-time contracts. Unions thus argued that workers might become trapped in inferior employment contracts. They also noted low levels of unionization among part-time workers and were afraid of the rise of a secondary and non-unionized job market. Wage flexibility is another element which is viewed sceptically by trade unions. For example, concern is expressed about the wide discretion given to management with regard to performance related pay (Anglo-German Foundation and Friedrich-Ebert-Stiftung, 2002).

However, trade unions' stance towards flexicurity does depend on both particular elements of flexibilization and particular countries they operate in. For example, the Danish flexicurity model enjoys the support of Danish trade unions and employers too, as was demonstrated in 2003 when the government's proposal to reduce the level of unemployment benefits was criticised by trade unions and employer organizations alike (Clasen and Viebrock, 2008). By contrast, Dutch trade union used to be rather sceptical towards any advancement of flexibility due to anxieties such as potentially reduced levels of employment protection, stimulation of low wages and low career prospects of part-time workers. As an alternative response to unemployment, in the 1980s a general working-time reduction with full wage-compensation was advocated. However, with part-time jobs becoming subsequently popular with Dutch women, trade unions changed their strategy and started to accept and indeed promote part-time work by trying to make it more similar to standard jobs in terms of employment and social security rights. Co-ordinated wage bargaining, combined with a mandatory minimum wage, helped to narrow the differences between these two types of participation in employment. Nowadays, coverage by collective agreements and dismissal protection of part-time work is similar to full-time work (Visser, 2002). At EU level, in 2006 the General Secretary of the ETUC praised the success of the flexicurity model in the Nordic countries and in Austria as a method for Europe to help growth and change (European Commission, 2006b).

Trade unions in other countries, however, have remained less enthusiastic about the notion of flexicurity, which seem to have failed to bring social partners closer together. In Germany, for example, trade unions continue to emphasize the importance of job security and favour internal functional flexibility, whereas employers make the case in favour of more external flexibility through curtailing employment protection - without considering complementary security. Social security

benefits are mainly identified as a disincentive to work. However, there might be indications for at least some change of view. For example, in May 2007 the Confederation of German Employers (BDA) explicitly endorsed the flexicurity concept in a joint paper with other European business federations. In this document the BDA emphasized that 'security based on extensive flexibility means more than just protecting existing jobs' (AIP *et al.*, 2007, p. 3), advocating the need for simple, transparent and predictable legal frameworks; rapid activation and re-integration of the unemployed and sustainable and affordable social security systems' and lifelong learning. Some of these elements appear to echo the EU flexicurity approach. However, employers put a stronger focus on external flexibility, low regulation and only basic social security. Thus, statements similar to the one by the BDA are unlikely to ease suspicions on the part of German trade unions which have tended to regard the flexicurity concept as a disguise for job deregulation, despite some firm-level flexicurity deals which have been negotiated between social partners (Leschke *et al.*, 2006).

Conclusions

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

Clearly, for analytical purposes the concept of flexicurity needs to be specified in order to be employed in a meaningful way. However, its vagueness might have political advantages, especially at an EU discourse level, making it acceptable to a larger number of actors. Yet, while its openness makes the idea of flexicurity it easy to disperse to EU member states in a sort of 'pick-and-choose' approach, there is a risk of loosing the crucial emphasis put on the simultaneousness of flexibility and security. Thus, many observers might be forgiven to suspect the term to be little more than an instrument for an old agenda aimed at making labour markets more flexible and curtailing employees' rights.

The attempt of reconciling economic with social security needs is not new and there have been approaches not too dissimilar to the logic of the flexicurity concept. Keune and Jepsen (2006) draw attention to two examples. The so-called Rehn-Meidner Model established in Sweden after World War II aimed to combine high labour mobility with full employment (thus ensuring high levels of security) and productivity gains with the help of extensive active labour market policies.

Depending on collective bargaining and co-determination, Sorge and Streeck's model of diversified quality production (Sorge and Streeck, 1988) regards high job security as an incentive for employers to invest in the skills of their employees – a mechanism which is explicitly recognised as beneficial by the European Expert Group on Flexicurity (2007). Nevertheless, while particular policies such as active labour market policies, the adjustment of employment protection and revision of unemployment benefits are certainly not new, considering a range of elements as a whole and combining them systematically under the heading of 'flexicurity' might be regarded as a form of innovation.

Of course, the effect of flexicurity policies is contestable. While the labour market performance in Denmark and the Netherlands has been positive over recent years, it is debatable whether this was due to particular flexicurity policy mixes or some other favourable factors such as the demographic composition of the work force (Madsen, 2002a). Klindt and Møberg (2006) suggest that some other institutional changes, such as the decentralization of collective bargaining, may underlie the Danish success story. Another reason for doubt is that the same measures seem to have different effects in different countries as many studies on the impact of employment protection legislation have shown. Moreover, while flexicurity policies are currently being portrayed as a cause for the positive labour market performance of several countries, the effect of particular policy instruments within the flexicurity mix is certainly contested. Madsen (2002b) points to the Danish flexicurity model and its emphasis on productivity gains and thus potentially offering little for groups such as migrants, unskilled or those with health problems who might find themselves left outside the 'golden triangle'. High benefit replacement rates might lead to financial disincentives for low-income groups ('poverty traps'), although these seemed to have been countered by the strong emphasis on activation and benefit conditionality. Activation schemes, in turn, have been criticised for cream skimming effects, implying that the most resourceful among the unemployed are obtaining the best activation offers.

Finally, the concept of flexicurity has become popular not merely due to real or apparent policy successes but also due to its political purpose. Policy tracing both in the Netherlands and Denmark suggest that flexicurity policies were post-hoc rather than proactive. Visser (2002) argues that the Dutch social security system was adapted once there was increasing pressure from a growing part-time workforce to make these contract forms more secure. He describes policy changes in the Netherlands as 'piecemeal, reactive and dictated by circumstances, but also innovative, with new goals being discovered along the way' (Visser, 2002, p. 26). Research from Denmark suggests that governments and social partners have been practicing flexicurity 'without knowing it', i.e. long before the concept had been phrased. Only once the notion of flexicurity gained wider ground policy makers began to employ it in not least for reasons of policy framing, allowing employment policies to appear more coherent and deliberate (Clement and Goul Andersen, 2006). This political purpose of flexicurity as an idea or approach contributes to its appeal but bears risks too. At a time of looming increases in unemployment it might well be

that flexicurity policies which are currently being praised will be criticised before long. In other words, there might be a danger than flexicurity might become another 'Japanese firm model' (Sperber, 2005). Considered an international role model when Japan's economy was booming at the end of the 1980s, the Asian recession in the late 1990s led to the very same arrangements and management methods being regarded as responsible for the crisis. At this point in time it remains to be seen whether flexicurity will be more than a buzzword which has outlived its temporary political purpose or an enduring component of particularly European approach of combining employment and social policies.

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[1] An abridged version of this working paper is published as 'Flexicurity and welfare reform: A review', in *Socio Economic Review* 7(2), 2009, 305-331.

[2] Auer (2006) prefers the term 'labour market security' rather than employment security since the latter term suggests workers are able to remain within the same firm, albeit not constantly in the same job or task (and is thus related to internal flexibility).

[3] For an overview on employment protection legislation and the insider/outsider problematic see, e.g. Cazes and Nesporova (2003) and Emmenegger (2007). For the complexities involved in evaluating the impact of dismissal protection see Büchtemann and Walwei (1996).

[4] Given the international interest in the Danish flexicurity approach the literature is plentiful. For overviews see Madsen (2002a; 2002b; 2007) or Bredgaard et al. (2005).

[5] As in the Danish case, there is ample literature on the Dutch flexicurity model. See, for example, Auer (2002), Hesselink and van Vuuren (1999), van Oorschot (2001; 2004a), Visser (2003), and Wilthagen et al. (2004).

[6] For more details on the labour market situation and policies in transition countries see Beleva et al. (2005); Cazes and Nesporova (2007); Crnković-Pozaić (2005); Eamets and Masso (2005 and 2006); Frey et al. (2007); Grotkowska et al. (2005); Gruzevskis and Blaziene (2005); Köllő and Nacsa (2005) and Tonin (2006).

[7] This view goes back to the 'Eurosclerosis' debate in the 1980s that put European labour markets into an unfavourable position compared to the flexible US labour market (Auer, 2006). Many European governments consequently committed themselves to deregulate their labour markets to foster economic growth (Wilthagen and Tros, 2004).

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