



Towards Common Principles of Flexicurity: More and better jobs through flexibility and security



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Towards Common Principles of Flexicurity: More and better jobs through flexibility and security

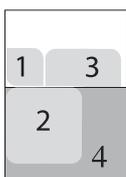
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Foreword



Today's economies and labour markets are changing quickly. Technology progresses, new products and services are being developed at an ever faster pace. New economies emerge, finding new markets for their products, but also representing new markets for the EU. This creates huge challenges for Europe's enterprises and workers. Mastering new skills becomes ever more important. Workers are increasingly likely to perform various tasks, and work for various employers, during their working life.

Does this mean that European workers have to live with less security? No, I am convinced that we can maintain and even improve security. Does it mean that the European social models are in danger? Again no, if we are prepared to modernise them. The flexicurity approach provides important answers to the question of how to meet modern labour market challenges and at the same time improve security.

Flexicurity strengthens the European Growth and Jobs Strategy, which aims to reduce unemployment and create more and better jobs. It is mainly about developing new kinds of security for workers. New securities are worker-oriented rather than job-oriented. They aim to help young people find a good quality job. They focus on supporting workers when mastering new skills within the enterprise. They provide support when moving into new employment, and adequate benefits when employment is not available.

The European Council asked the Commission, together with the Member States and the social partners, to develop a set of common principles of flexicurity. This Communication is the result of extensive consultations and provides input to those common principles.

This Communication does not aim to provide simplistic answers or one-size-fits-all solutions. It is a toolbox for national governments, social partners and other stakeholders to use when designing their own flexicurity approach. Most of the tools have been taken from real life experiences throughout Europe. They have proven to be successful in practice. Only proactive policies can help us meet the challenges. Flexicurity provides blueprints for such policies. I hope that it will inspire many people and contribute to effective policy packages being designed throughout Europe.

Vladimír Špidla
Member of the European Commission
responsible for employment, social affairs and equal opportunities



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Why flexicurity?

Flexicurity is a combination of flexibility and security in working arrangements. The concept is a response to the needs European labour markets are facing. On the one hand, the EU has to come to terms with changes in the world economy. Technological developments are becoming ever more rapid. Products and services are developed at an ever quicker pace. If Europe wants to strengthen its economy and create jobs, it has to be in the forefront of these developments. Enterprises have to move towards innovative product and service development. They have to master new skills and production techniques. This is a continuous process, affecting employers and workers alike. Jobs change more quickly than before. The ability to adapt and readiness for change are becoming more and more important.

On the other hand, the EU needs to reinforce the European social models, which are committed to social protection, social cohesion and solidarity. Workers need sufficient security to plan their lives and careers with support to make it through all these changes and stay in employment. They need opportunities to master new skills and help to move from one job to another. They need protection against bad working conditions. They need good social protection in case a new job is not easily at hand or when employment is no longer a realistic option.

Flexicurity is an attempt to unite these two fundamental needs. It promotes a combination of flexible labour markets and adequate security. Flexicurity can also help provide an answer to the EU's dilemma on how to maintain and improve competitiveness whilst reinforcing the European social model.

Flexicurity should not be misconceived as giving employers freedom to dissolve their responsibilities towards the employee and to give them little security. Flexicurity does not mean 'hire and fire'; nor does it imply that open-ended work contracts are a thing of the past. Flexicurity is about bringing people into good jobs and developing their talents. Employers have to improve their work organisation to offer jobs with future. They need to invest in their workers' skills. This is part of 'internal flexicurity'. However, keeping the same job is not always possible. Sometimes it is better to focus on finding a new job rather than preserving the job one has at the moment. 'External flexicurity' attempts to offer safe moves for workers from one job into another, and good benefits to cover the time span, if needed.

Rather than job security, flexicurity focuses on 'employment security'. Employment security means staying in employment, within the same enterprise or into a new enterprise. The philosophy behind flexicurity is that workers are more prepared to make such moves if there is a good safety net.

EU Member States have recognised that they need to develop innovative policies to help people stay in employment whilst ensuring that companies remain competitive on the global stage. So they asked the European Commission to come up with ideas to help them develop policies that would work in their particular labour market circumstances. The European Commission has, in response to this request, extensively researched possible solutions and this Communication is the result of this work.

1. The challenges and opportunities of globalisation and change

The way European citizens live and work is rapidly changing¹. Four main reasons can be highlighted: European and international economic integration; the development of new technologies, particularly in the information and communication areas; the demographic ageing of European societies, together with still relatively low average employment rates and high long-term unemployment, which put at risk the sustainability of social protection systems; and the development of segmented labour markets in many countries² where both relatively protected and unprotected workers coexist ('insiders' and 'outsiders').

Overall, globalisation is beneficial for growth and employment, but the change it brings requires rapid responses from enterprises and workers. Employment has been increasing in the EU and unemployment is declining steadily. There are positive developments to build upon, even if there are still 17 million unemployed in the EU (2007) and European economies still need restructuring. Adaptation requires a more flexible labour market combined with levels of security that address simultaneously the new needs of employers and employees. Europe must create more and better jobs, to manage change and new social risks. It must reduce segmented labour markets and precarious jobs, and promote sustained integration and accumulation of skills. Women, the young and migrants are already over-represented among labour market outsiders, and older workers face a number of difficulties keeping or finding a job³. Even those on open-ended contracts can feel threatened because, if they are made redundant, they face the same difficulties moving on to good quality jobs.

In order to achieve the Lisbon objectives of more and better jobs, new forms of flexibility and security are needed, for individuals and companies as well as for Member States and the Union. Individuals increasingly need employment

security rather than job security, as fewer have the same job for life. Companies, especially SMEs, 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. However, Europe is not adjusting as well as it could to the shocks that are imposed on its economy. This may aggravate concerns related to outsourcing and relocation⁴, and increase income inequalities and gaps between skilled and unskilled workers⁵. The EU and its Member States need to progress further towards a dynamic, successful knowledge economy, spreading the benefits of prosperity more evenly across society. There must be more winners from the process of change and more upwards mobility. More 'have-nots' must be transformed into 'haves'.

European citizens accept the need for adaptation and change. 76% of Europeans agree that lifetime jobs with the same employer are a thing of the past. 76% also consider that being able to change easily from one job to another is a useful asset to find a job nowadays. 72% of people said work contracts should become more flexible to encourage job creation. Finally, 88% of citizens said that regular training improves one's job opportunities⁶.

The EU's overall policy response to the challenges and opportunities of globalisation is the renewed Lisbon Strategy for Growth and Jobs. The European Council called on the Member States 'to develop more systematically in the National Reform Programmes comprehensive policy strategies to improve the adaptability of workers and enterprises'. The Commission, jointly with Member States and Social Partners, was asked to 'explore the development of a set of common principles on flexicurity', as a useful reference in achieving more open and responsive labour markets and more productive workplaces⁷.

(1) BEPA (2007): *Europe's Social Reality*.

(2) European Commission, *Employment in Europe 2004*, Chapter 4.

(3) OECD (2006): *Live longer, work longer*. See also OECD (2007) *Employment Outlook*.

(4) BEPA (2006): *EU competitiveness and industrial location*.

(5) J. Hudson: *Inequality and the Knowledge economy: Running or standstill?*

(6) *European Employment and Social Policy, Special Eurobarometer 261*, October 2006.

(7) *Presidency conclusions, European Council 23/24 March 2006 and 8 March 2007*.



Segmentation of the labour market

Today's labour market shows a clear division between well-protected and less-protected workers. Many countries have tried to make their labour markets more flexible by creating various sorts of contracts with less protection. Workers on such contracts risk getting trapped in a situation with less security, without being able to move into better employment.

Flexicurity addresses this problem, for example by limiting the use of consecutive fixed-term contracts and by ensuring transitions into open-ended contracts.

Globalisation

Globalisation, which is about increasing economic integration and trade flows in Europe but also throughout the world, is often seen as negative. Many see it as posing a threat to their jobs and livelihoods because they fear that companies will either move their operations abroad or employ cheaper outsourced labour from other countries or that cheaper labour will flood their national markets. In reality globalisation also brings much that is positive. It actually creates jobs and economic growth if companies and workers upgrade their skills and thereby increase productivity.

Achieving the Lisbon objectives

The Lisbon objectives are goals that EU governments have set themselves to achieve by 2010 through national reform programmes. The idea is to promote job creation and economic growth. Two key goals are to achieve an overall 70% employment rate and a 60% employment rate for women by 2010.

To achieve this, education and training levels need to be increased to ensure that people are as employable as possible. In PORTUGAL, for instance, where employability is low, the government has set three broad aims to be achieved by 2010. These are to make upper secondary education (12 years of schooling) the minimum school/training reference for all, to ensure that 50% of the young attending secondary education finish their studies with both a secondary school and a vocational certificate and to qualify one million adults throughout the recognition, certification and validation of their skills while providing them with further education and training to obtain dual certification of school and vocational skills.

2. An integrated flexicurity approach

The rationale for an integrated flexicurity approach is the need to achieve the objectives of the renewed Lisbon Strategy⁸, in particular more and better jobs, and at the same time to modernise the European social models. This requires policies that address simultaneously the flexibility of labour markets, work organisation and labour relations, and security – employment security and social security.

Flexicurity aims at ensuring that EU citizens can enjoy a high level of employment security, i.e. the possibility to easily find a job at every stage of active life and have a good prospect for career development in a quickly changing economic environment. It also aims at helping employees and employers alike to fully reap the opportunities presented by globalisation. It therefore creates a situation in which security and flexibility can reinforce each other.

Member States should do more to make their labour markets employment-friendly: policy measures are often designed and implemented in a piecemeal way that does not address the broader problems in the labour market. Too frequently, policies aim to increase *either* flexibility for enterprises *or* security for workers; as a result, they neutralise or contradict each other. The economic upswing, with economic growth at a 6 year high and 7 million new jobs being created between 2005 and 2008, is an opportunity for the Union and the Member States: now is the time to redouble efforts and undertake the reforms needed to fulfil the Union's commitments to growth and jobs, and to economic and social cohesion.

What is flexicurity?

Flexicurity can be defined as an integrated strategy to enhance, at the same time, flexibility and security in the labour market.

Flexibility, on the one hand, is about successful moves ('transitions') during one's life course: from school to work, from one job to another, between unemployment or inactivity and work, and from work to retirement. It is not limited to more freedom for companies to recruit or dismiss, and it does not imply that open-ended contracts are obsolete. It is about progress of workers into better jobs, 'upward mobility' and optimal development of talent. Flexibility is also about that flexible work organisations, capable of quickly and effectively mastering new productive needs and skills, and about facilitating the combination of work and private responsibilities. Security, on the other hand, is more than just the security to maintain one's job: it is about equipping people with the skills that enable them to progress in their working lives, and helping them find new employment. It is also about adequate unemployment benefits to facilitate transitions. Finally, it encompasses training opportunities for all workers, especially the low skilled and older workers.

Thus, enterprises and workers can both benefit from flexibility *and* from security, e.g. from better work organisation⁹, from the upward mobility resulting from increased skills, from investment in training that pay off for enterprises while helping workers adapt to and accept change.

(8) Annual Progress Reports of January and December 2006: Guideline 21.

(9) OECD (2006): *Live longer, work longer*.



Flexicurity = flexibility + security

Flexicurity is about striking the right balance between flexible job arrangements and secure transitions between jobs so that more and better jobs can be created. The idea is that flexibility and security should not be seen as opposites but as complementary.

Flexibility is about developing flexible work organisations where people can combine their work and private responsibilities, where they can keep their training up-to-date and potentially have flexible working hours. It is also about giving both employers and employees a more flexible environment for changing jobs.

Security means 'employment security' – to provide people with the training they need to keep their skills up-to-date and to develop their talent as well as providing them with adequate unemployment benefits if they were to lose their job for a period of time.

Flexicurity within the enterprise

Flexicurity does not just concern moves from one enterprise to another. It is also about how the enterprise is organised. Modern and well-organised enterprises are more capable of mastering new skills and production techniques. This makes them stronger economically, and at the same time improves working conditions and job quality. High Performance Work Organisations are characterised by flatter hierarchical structures, a stronger involvement of employees in decision-making, larger autonomy of workers in the completion of their tasks, and richer job content. More autonomy over their working hours helps workers combine their job with other tasks, such as looking after children or following a training course.

Europeans and flexicurity

The flexicurity concept has proven to have a broad acceptance among Europeans. A recent Eurobarometer survey (Autumn 2006) showed that 76% believe that a 'job for life' is a thing of the past. A majority (72%) feel that employment contracts should become more flexible in order to create more jobs. Europeans also believe strongly (88%) in lifelong learning and that it improves chances of finding a new job quickly. They are also fairly confident they would find a new job in the event they should lose the employment they hold.

The components of flexicurity

The Commission and the Member States, drawing on experience and analytical evidence, have reached a consensus that flexicurity policies can be designed and implemented across four policy components:

- *Flexible and reliable contractual arrangements* (from the perspective of the employer and the employee, of "insiders" and "outsiders") through modern labour laws, collective agreements and work organisation;
- *Comprehensive lifelong learning (LLL)* strategies to ensure the continual adaptability and employability of workers, particularly the most vulnerable;
- *Effective active labour market policies (ALMP)* that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs;
- *Modern social security systems* that provide adequate income support, encourage employment and facilitate labour market mobility. This includes broad coverage of social protection provisions (unemployment benefits, pensions and healthcare) that help people combine work with private and family responsibilities such as childcare.

How flexicurity works

Economic analysis¹⁰ confirms that these four components can be mutually supportive, and improve employment (total as well as for women, youth and older workers), at-risk-of-poverty rates, and human capital.

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. According to analytical evidence¹¹, strict EPL¹² reduces the numbers of dismissals but decreases the entry rate from unemployment into work. When deciding whether to recruit new staff, firms will take into account the likelihood that high dismissal costs will be incurred in the future. This is especially relevant for small enterprises. Analysis¹³ also suggests that although the impact of strict EPL on total unemployment is limited, it can have a negative impact on those groups that are most likely to face problems of entry into the labour market, such as young people, women, older workers and the long-term unemployed. Women, for example, are more likely than men to move between working and not working, in particular when seeking to balance work and family life, and therefore are more affected by reduced recruitment caused by strict EPL. Strict EPL often encourages recourse to a range of temporary contracts with low protection – often held by women and young people – with limited progress into open-ended jobs¹⁴. The result is segmentation of the labour market which flexicurity seeks to address. EPL, of course, has also positive effects; in particular, it encourages enterprises to invest in training and promotes loyalty and higher productivity of employees.

Comprehensive lifelong learning strategies and better investment in human resources are necessary to respond to rapid change and innovation. This is an increasingly crucial factor both for the competitiveness of firms and the long-term employability of workers. High quality initial education, broad key competences and continuous

(10) European Commission, *Employment in Europe 2006*, Chapter 2.

(11) OECD (2007) *Employment Outlook*, p. 69–72.

(12) The OECD assesses overall strictness of EPL. See for example OECD (2004): *Employment Outlook*.

(13) E.g. Algan and Cahuc (2004), *Job Protection: the Macho Hypothesis*, IZA DP no. 1192 and Nickell and Layard, (1999),

Labour Market Institutions and Economic Performance, in: Ashenfelter and Card (Eds.), *Handbook of Labour Economics*.

(14) European Commission, *Employment in Europe*, 2004.



The components of flexicurity

- **Flexible and reliable contractual arrangements**
The idea is to help 'outsiders', who are employed on short-term or irregular contracts or are unemployed (many of whom are women, young people and migrants) to find work and to move into stable contractual arrangements. Modern work organisations should promote work satisfaction and at the same time make enterprises more competitive. Flexicurity is also to help 'insiders' who are permanent employees with open-ended contracts, prepare themselves for job changes ahead of time in the case of redundancy due to economic change.
- **Comprehensive lifelong learning (LLL) strategies**
Lifelong learning is about ensuring that EU citizens have the opportunity to have a high quality initial education, that they complete at least their secondary education, that they develop a broad range of key skills and that they acquire new skills and upgrade existing skills throughout their working lives. It is also about ensuring that enterprises invest more in human capital and allow employees to develop their skills.
- **Effective active labour market policies**
Active Labour Market Policies help unemployed people back to work through job placement services and labour market programmes such as training and job creation. By implementing 'active labour market policies' such as an efficient job search support and good work incentives, jobseekers can be encouraged to find new employment. Job search courses and job clubs have been shown to be among the most effective measures to help the unemployed find a job.
- **Modern social security systems**
It is important for EU governments to provide adequate unemployment benefits to act as a safety net when people are changing jobs and to offer healthcare benefits in case they fall ill as well as pensions for when they retire. Childcare is another important area as it helps people to combine work and private life and thus keep them in the labour market.

investments in skills improve enterprises' opportunities to cope with economic change and workers' chances of staying employed or finding new employment. High participation in lifelong learning is positively associated with high employment and low (long-term) unemployment¹⁵. However, too often these investments are only benefiting the highly skilled¹⁶: those with the greatest need for learning, such as low-skilled workers, workers on temporary contracts, self-employed, and older workers, suffer most from underinvestment in training. Enterprises may be discouraged from investment in skills because trained staff may be recruited by other employers. Cost sharing, for example through funds at branch level, may partly address this problem. Inclusive lifelong learning strategies require the active involvement of governments, social partners, enterprises and individual workers.

Modern social security systems offering adequate unemployment benefits, as well as active *labour market policies*, are essential components providing income security and support during job changes. Good unemployment benefit systems are necessary to offset negative income consequences during job transfers, but they may have a negative effect on the intensity of job search activities and may reduce financial incentives to accept work. This can be largely offset by setting up efficient job search

support and work incentives¹⁷, ensuring a balance between rights and obligations. Evidence suggests that direct job search assistance, such as job search courses and job clubs, rank highly among the most effective measures to help the unemployed find a job¹⁸. Spending on active labour market policies is associated with lower aggregate unemployment¹⁹. The effectiveness of active labour market policies is positively related to less strict EPL²⁰.

A successful flexicurity strategy has to balance carefully the income insurance function of the unemployment benefit system with an appropriate 'activation' strategy designed to facilitate transitions into employment and boost career development. Empirical evidence suggests that workers feel better protected by adequate unemployment benefits than by strict protection against dismissal. Active labour market policies, too, have a positive effect on the feeling of security among workers²¹. When asked about their chances of finding new employment if made redundant, respondents react very differently across Europe. For example, French workers, with high EPL, rate their chances as very low while Danish workers, with moderate EPL, rate them as very high²². This illustrates that good unemployment benefits, effective active labour market policies and dynamic labour markets increase people's feeling of security.

(15) *Employment in Europe 2006*: p. 108.

(16) OECD (2005): *Promoting Adult Learning*.

(17) OECD (2005): *From unemployment to work*.

(18) Jochen Kluge, *The Effectiveness of Active Labour Market Policy*, IZA Discussion Paper, March 2007.

(19) OECD (2006): *OECD Jobs Strategy: Lessons from a decade's experience*.

(20) Jochen Kluge (See above).

(21) OECD (2004, see above) and Postel-Vinay and Saint-Martin (2004) 'Comment les salariés perçoivent-ils la protection de l'emploi?'

(22) *European Employment and Social Policy, Special Eurobarometer 261*, p. 27.



What is 'employment protection legislation'?

Employment protection legislation (EPL) refers to various regulations determining if and how a job contract ends. It can for instance be when employers need consent from a judge or from the public authorities before they can end a contract. It can also be when companies have to pay an employee several months of wages if they give an employee their notice. Overly strict employment legislation can encourage companies to use different types of temporary contracts instead of taking on new employees on a permanent contract. In reality this means that employees will then have a much lower level of protection.

It is sometimes claimed that flexicurity seeks to abolish employment protection legislation. This is not the case. Flexicurity promotes an appropriate design of EPL to ensure that finding new employment is facilitated, especially when one cannot keep one's job.

Introducing career break arrangements

BELGIUM introduced the option of career breaks in the public sector in 1985 to improve people's work-life balance and to give them a chance to upgrade their skills and retrain. In the private sector a new collective agreement with the social partners ('time credit') has been reached, allowing employees in companies with ten or more staff the right to a one-year career break (monthly flat rate allowance provided by the federal government) during their professional career.



Flexicurity in Europe

Promoting lifelong learning

In THE NETHERLANDS, 40% of all workers are covered by a training fund. The majority of the funds finance both industry-specific training and training that can be used outside the own industry. Training funds are primarily spent on further training (EUR 250 million, or 43% of total funds expenditure) and youth apprenticeships (EUR 80 million or 13%).

3. Flexicurity policies: the experience of Member States

In recent years, the flexicurity debate has been inspired by favourable employment and socioeconomic performances in certain Member States, as underlined by the OECD's restated Jobs Strategy²³. The OECD characterises flexicurity broadly as follows: moderate EPL; high participation in lifelong learning; high spending on labour market policies (both passive and active); generous unemployment benefit systems balancing rights and duties; broad coverage of social security systems; and high trade union coverage. The socioeconomic outcomes are characterised by high employment rates, low unemployment rates, and low relative poverty rates compared to the EU average. Work done in the OECD²⁴, ILO²⁵ and the European Commission²⁶ indicates that flexicurity policies have contributed to those favourable outcomes.

In line with the Strategy for Growth and Jobs, flexicurity should be seen in a wider context. Sound and financially sustainable macro-economic and effective micro-

economic policies, as well as open and competitive product, services and capital markets create an environment where firms can seize emerging opportunities, fund new commercial ideas and create jobs. Similarly, flexicurity must be complemented by social policies aimed at the underprivileged and those furthest away from the labour market.

Annex II highlights some examples of countries operating effective flexicurity policies or addressing their challenges in a comprehensive, flexicurity-oriented way.

In order to monitor the effectiveness of flexicurity policies, Member States and the Commission are discussing the definition and use of indicators relevant for flexicurity; the result so far of this work in progress is in Annex III.

(23) OECD (2006), *Boosting Jobs and Incomes, Policy Lessons from Reassessing the OECD Jobs Strategy*.

(24) *Ibidem*

(25) ILO, *Seventh European Regional Meeting, 14-18 February 2005: official conclusions No. 18*; ILO, *Changing Patterns of Work, Report of the Director-General, June 2006: page 33-35*. Also: S. Cazes and A. Nesporova, *Flexicurity: A relevant approach in Central and Eastern Europe*, ILO 2007.

(26) OECD (2006), *Boosting Jobs and Incomes, Policy Lessons from Reassessing the OECD Jobs Strategy*. European Commission, DG EMPL, *Employment in Europe 2006*.



Paving the way for better contractual arrangements

SPAIN has a persistently high share of fixed-term contracts, covering about 34% of total employment. The use of this kind of contract, coupled with a high turnover rate of temporary jobs, has been giving employers and workers little incentive to invest in human capital initiatives such as training. A first major step towards addressing this problem was taken via an agreement, signed between the social partners in May 2006 and running until end 2006. Any worker having signed two or more fixed-term contracts with the same company, and having served in the same post for more than 24 months within a period of 30 months, automatically acquires an open-ended contract. In this contract obligatory severance pay is reduced from 45 to 33 days' pay per year worked. The main aim of the agreement is to cut back the high rates of temporary working by setting incentives for open-ended contracts, especially for disadvantaged groups of workers, such as women, youth, people with disabilities and the long-term unemployed.

What are the benefits of flexicurity?

Many studies have shown that the implementation of flexicurity leads to high employment rates and low unemployment rates. In addition, the social security dimension of the concept safeguards low poverty levels.

The success of the Danish flexicurity system is, according to the European Flexicurity Expert Group, a result of combining unemployment insurance, relatively flexible labour laws and efforts to help people find jobs. The system 'could not have developed as it has without the very highly developed industrial relations and social dialogue in relation to the high degree of unionisation, which is a 'trademark' of the Danish model'. Roughly 80% of workers are estimated to be members of a trade union.

4. Flexicurity and social dialogue

Active involvement of social partners is key to ensure that flexicurity delivers benefits for all. It is also essential that all stakeholders involved are prepared to accept and take responsibility for change. Integrated flexicurity policies are often found in countries where the dialogue – and above all the trust – between social partners, and between social partners and public authorities, has played an important role. Social partners are best placed to address the needs of employers and workers and detect synergies between them, for example in work organisation or in the design and implementation of lifelong learning strategies. Social partners' support for the core objectives of the Lisbon Strategy is an important asset; translating this support into concrete policy initiatives is a responsibility of governments and social partners alike. A comprehensive flexicurity approach – as opposed to separate policy measures – is arguably the best way to ensure that social partners engage in a comprehensive debate on adaptability.

Experience shows that a partnership approach is best suited to develop a flexicurity policy. Obviously, it is up to the

relevant stakeholders, as autonomous organisations, to decide for themselves how to participate in social dialogue on flexicurity policies.

At Member State level, flexicurity would provide the framework for a process to establish national objectives for adaptation and change in the area of employment, productivity, flexibility and security. This process would need increased awareness of the specific needs for change and policy improvements. It would be initiated by public authorities, but seeking the commitment of the social partners, and of other stakeholders as appropriate. A national dialogue could be set up with representatives of employers, workers, government and other parties, with the task of formulating a series of policy approaches or negotiating a package of measures. This could lead to the adoption of a national integrated flexicurity strategy. The Commission encourages Member States to work with social partners with a view to including their approaches to flexicurity in the National Reform Programmes.



The goal of social dialogue

Social dialogue can include negotiations, consultations or simply the exchange of information between the social partners on issues of common interest relating to economic and social policy. The main goal is to promote consensus building and democratic involvement among the social partners. Successful social dialogue structures and processes can resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress.

Who is involved?

Social partners are considered to be the different parties of employment - employers' organisations on the one hand and employees' organisations, the trade unions, on the other.

Other stakeholders should also take part in the debate, such as organisations representing the interests of women, older people, people with disabilities and ethnic minorities. Training institutes, universities, etc. can also contribute to the dialogue.

Involving the social partners

IRELAND launched a national workplace strategy in 2005 to identify how key challenges for employers, managers, trade unions and employees can be addressed by well-planned approaches to managing change and innovation within the workplace. The strategy includes employer and employee representatives.

Trade unions, employers and the public authorities in Latvia meet twice a year as part of a cooperation agreement signed in May 2006. Lifelong learning initiatives in Norway and Greece have also involved employers and employees.



Flexicurity in Europe

5. Developing common principles of flexicurity

While flexicurity policies and measures must reflect the very different national situations, all EU Member States face the same challenge of modernisation and adaptation to globalisation and change. Therefore, to facilitate national debates within the common objectives of the Growth and Jobs Strategy, it seems appropriate to reach a consensus at EU level on a series of 'common principles of flexicurity'.

These common principles could be a useful reference in achieving more open and responsive labour markets and more productive workplaces. They should help Member States in the establishment and implementation of flexicurity strategies which fully take into account their own respective specific challenges, opportunities and circumstances, with the active involvement of social partners.

The common principles could be:

1. Flexicurity involves flexible and reliable contractual arrangements (from the perspective of the employer and the employee, of insiders and outsiders); comprehensive lifelong learning strategies; effective active labour market policies; and modern social security systems. Its objective is to reinforce the implementation of the Growth and Jobs Strategy, create more and better jobs, and strengthen the European social models, by providing new forms of flexibility and security to increase adaptability, employment and social cohesion.
2. Flexicurity implies a balance between rights and responsibilities for employers, workers, jobseekers and public authorities
3. Flexicurity should be adapted to the specific circumstances, labour markets and industrial relations of the Member States. Flexicurity is not about one single labour market model or a single policy strategy.
4. Flexicurity should reduce the divide between insiders and outsiders on the labour market. Current insiders need support to be prepared for and protected during job-to-job transitions. Current outsiders – including those out of work, where women, the young and migrants are over-represented – need easy entry points to work and stepping-stones to enable progress into stable contractual arrangements.
5. Internal (within the enterprise) as well as external (from one enterprise to another) flexicurity should be promoted. Sufficient flexibility in recruitment and dismissal must be accompanied by secure transitions from job-to-job. Upward mobility needs to be facilitated, as well as between unemployment or inactivity and work. High-quality workplaces with capable leadership, good organisation of work, and continuous upgrading of skills are part of the objectives of flexicurity. Social protection needs to support, not inhibit, mobility.
6. Flexicurity should support gender equality by promoting equal access to quality employment for women and men, and by offering possibilities to reconcile work and family life as well as providing equal opportunities to migrants, young, disabled and older workers.
7. Flexicurity requires a climate of trust and dialogue between public authorities and social partners, where all are prepared to take responsibility for change, and produce balanced policy packages.
8. Flexicurity policies have budgetary costs and should be pursued also with a view to contribute to sound and financially sustainable budgetary policies. They should also aim at a fair distribution of costs and benefits, especially between businesses, individuals and public budgets, with particular attention to the specific situation of SMEs. At the same time, effective flexicurity policies can contribute to such an overall objective.

Flexicurity in Europe



Implementing secure transitions between jobs

SWEDEN has introduced career transition agreements to support workers in the case of their being made redundant. The agreements, which allow for such things as support for counseling, guidance and career reorientation, education and training and helping workers set up their own business, exist in many collective bargaining sectors. According to Swedish surveys, the results are positive:

- 89 % of the workers involved found a permanent job
- 72 % received the same or a higher salary compared to the previous job
- 85 % managed to find an equal or improved position
- 43 % of the workers were 50 years or older

Promoting flexible work arrangements

In HUNGARY, the new Labour Code (2003) allows employees to request a modification of their working time, which allows full-time workers to ask to work part-time and vice versa. In terms of family leave, Hungary provides relatively generous legal regulations - paid maternity leave of 26 weeks, paternity leave of two days and two years of 70%-paid parental leave). There are also various flexible retirement schemes in Hungary.

Ensuring an equal job market

In SLOVAKIA, a financial contribution for employing a disadvantaged jobseeker has been introduced to target disadvantaged jobseekers, who include school leavers/graduates aged under 25, people over 50, long-term unemployed people, disabled people, single parents and people who have been granted asylum. The employer is granted a financial contribution to cover the costs of employing the jobseeker for a minimum period of 24 months, particularly in regions with high rates of unemployment.

Common European flexicurity principles

The European labour market is diverse and one solution doesn't fit all. The European Commission has proposed a basis for common principles to guide the Member States in implementing flexicurity. These principles are reference points that Member States should agree on. Each Member State will then design and implement these according to their particular labour market, including the institutional elements. In addition to the common principles Member States will have a number of pathways suggesting approaches depending on the country's employment situation.





6. Flexicurity pathways

The implementation of the common principles of flexicurity in the Member States requires the establishment of carefully planned and negotiated combinations and sequences of policies and measures. Since Member States vary considerably in their socio-economic, cultural and institutional background, the specific combinations and sequences will also vary.

While flexicurity is not about one single labour market model or a single policy strategy, best practices from throughout the Union provide ample opportunities for Member States to learn from each other by analysing what works best in their national situations.

A number of broad, 'typical' combinations and sequences of the policy components of flexicurity can be identified, to help tackle the typical challenges that countries face on the way to flexicurity; these are called flexicurity pathways. The four typical pathways – and the challenges they seek to address – described in Annex I do not

– and indeed cannot – reflect the concrete situation of any specific country. However, each pathway – or even a combination of them – addresses specific challenges that are pertinent to several Member States.

These pathways have been developed on the basis of the Member States' situations, and of the report of the Flexicurity Expert Group²⁷.

Member States, taking account of their own particular situation and institutional background, should study – in consultation with social partners and other stakeholders – their specific challenges and the typical pathways that can help to address them, in order to design their own comprehensive pathway towards better combinations of flexibility and security.

The typical pathways should also serve as an instrument for mutual learning and benchmarking in the framework of the renewed Lisbon Strategy.

(27) Flexicurity Pathways, report by Prof. Ton Wilthagen, rapporteur of the Flexicurity Expert Group, May 2007.



Pathways to flexicurity

The Flexicurity Expert Group has put together different pathways to flexicurity based on specific problems. The EU recognises that one single flexicurity policy might not fit every country and is therefore promoting that each Member State find its own way. The different pathways aim to help governments in implementing flexicurity measures.

Ensuring employment security

THE FRENCH 'contrat de transition professionnelle' (CTP) is offered to workers who face redundancy due to economic reasons and for whom the employer does not have a legal duty to contribute to their re-employment. The contract, which has a maximum duration of 12 months, is signed between the jobseeker and the National Association for Professional Education of Adults (ANFP). It aims to offer a sequence of supporting measures tailored to the jobseeker's needs, such as training and traineeships with public and private enterprises. In the months during which the worker does not perform paid work, he or she is paid a salary of 80% of the average previous gross wage.



Flexicurity in Europe

Allowing flexible working hours

For employees, the UK has introduced measures to allow for flexibility of individual working arrangements. For example, since April 2003, parents with children under 6 years, or 18 if their child is disabled, have the right to request to work flexible hours, giving them the chance to care for their children at times when needed.

7. The financial dimension of flexicurity

Accelerating economic and labour market changes require workers to make transitions between jobs more frequently during their careers. This may require having recourse to unemployment benefits while being supported by active job search and skills improvement.

In countries where a system of unemployment benefits is already in place and benefits are generous, the application of the right-and-duty principle should contribute to make the system cost effective. For countries where benefit systems are less developed, authorities may consider shifting public resources towards enhancing flexicurity policies and distribute any additional costs between different sources, through either increased taxation or social contributions.

However, the financial costs of flexicurity should always be assessed against the budgetary benefits stemming from enhanced labour market dynamism, higher employment and productivity. One study²⁸ estimates that a 10% increase in ALMP spending per unemployed person reduces by 0.4% the unemployment rate. Early intervention cuts the long-term costs of unemployment, associated ill health and social exclusion²⁹.

Improved lifelong learning will require a more efficient, and sometimes greater, use of public and private resources, but this should pay off in terms of more jobs and higher labour productivity. It has been estimated that individuals who undertake on-the-job vocational training earn on average 5% more than those who do not³⁰. A significant proportion of on-the-job training costs is currently borne by employers and will continue to be so. In addition, public policies may also stimulate lifelong learning financed by individuals, e.g. through tax deductions. In most countries workers can also be made responsible for investments in lifelong learning and the taking up of current training offers. Therefore, workers may also bear some of the costs, for example by investing their time.

Strengthening active labour market policies may require new resources being concentrated on individualised and preventive policies. However, these policies do not be-

come more effective simply by raising total spending. Their effectiveness depends on their quality and their labour market relevance, on being tailor-made, and on the effective combination between security and readiness to accept change and labour markets dynamism. Effective anti-discrimination policies also complement active labour market policies.

Flexicurity policies often have budgetary costs and must remain fully compatible with sound and financially sustainable budgetary policies. In some countries flexicurity-related expenditure in itself is high enough but its effectiveness needs to be increased, notably by improving the structure of lifelong learning and active labour market policies. In other countries, there is clearly a need for extra resources and thus increased public and private expenditure, at least in the short run; however, this extra funding does not necessarily come from higher total public spending but also from a fair distribution of costs between businesses, individuals and public budgets, and from a shift of public spending across policy priorities.

Financing flexicurity policies: the Community contribution

The Community Guidelines for Cohesion and those for Rural Development highlight the contribution of Cohesion Policy and Rural Development to the strategic objectives of the Union, and in particular to the Lisbon Strategy. More specifically, all the measures that fall within the Employment Guidelines (including therefore flexicurity policies) are eligible for the European Social Fund (ESF) support, which will make available to Member States approximately € 70 billion in the 2007-2013 programming period, and in many cases the European Regional Development Fund can also provide financial support. Among the actions that could be funded are training at company level and active labour market measures, including job-finding assistance for the unemployed, lifelong learning and the promotion of self-employment and entrepreneurship. The European Globalisation Adjustment Fund can also provide a significant Community contribution.

(28) Bassani and Duval, 'Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions', OECD WP N° 35, 2006.

(29) Iskra Beleva, *Long-Term Unemployment as Social Exclusion*, Human Development Report, UNDP 1997.

(30) De la Fuente and Ciccone, 'Human capital in a global and knowledge-based economy', May 2002.



Flexicurity in Europe

Promoting secure transitions between jobs

AUSTRIA introduced a new system of severance pay in 2003. Up until then, severance payment to redundant workers depended on the length of the employment relationship. This meant that workers, when moving from one employer to another, would lose their accumulated rights. The new system obliges the employer to pay a fixed monthly sum into a personalised account held by the worker. Workers may draw from this account in the case of dismissal. The new system means that workers will no longer be put off from changing jobs for fear of losing out financially and that they will not lose out if they choose to hand in their notice to an employer.

Ensuring inclusion at the job market

ESTONIA has introduced new employment initiatives for people with disabilities. Registered disabled people will be entitled to a personalised job search plan. Measures include support to employers for adaptations to premises and equipment needed when hiring a disabled person and support from public employment service employees to help disabled people at job interviews.

Developing flexicurity policies

In practice, good flexicurity policies can lead to citizens having a wider source of potential jobs at any given moment and being more employable because they can demonstrate greater productivity and a wider skills base to potential employers. For society, acting pro-actively to make the labour market more flexible and more secure will reduce the long-term costs of unemployment, associated ill health and social exclusion (United Nations Development Programme report, published in 1997).



8. Next steps:

Flexicurity and the Lisbon Strategy for Growth and Jobs

The purpose of this Communication is to facilitate a comprehensive debate between EU institutions, Member States, social partners and other stakeholders, so that the European Council may adopt, by the end of 2007, a set of common principles of flexicurity. These common principles should then inspire and contribute to the implementation of the Integrated Guidelines for Growth and Jobs, and in particular the Employment Guidelines.

The next Joint Employment Report of 2007/2008 should focus its analysis on the extent to which Member States are developing comprehensive policy strategies covering the four components of flexicurity. In its analysis of this year's Lisbon National Reform Programmes, the Commission will provide initial comments on the way Member States might benefit from common principles and pathways of flexicurity to design their own specific policies.

Throughout the next cycle of the Integrated Guidelines, Member States will be invited to use their National Reform Programmes to report explicitly on their flexicurity strategies. The Commission will monitor these strategies in the Annual Progress Reports, and report on progress made in flexicurity strategies at the end of the Lisbon cycle. The Commission will propose a strengthened and more focused mutual learning programme, to ensure that Member States benefit from flexicurity policies that work.

Given the role of social dialogue in the establishment and implementation of successful flexicurity strategies, the Commission invites the European social partners to engage in a dialogue at Community level, on the basis of the common principles of flexicurity approved by the European Council. This debate would complement, and feed into, the core role of social partners in their respective national contexts. The 2008 Tripartite Social Summit could thus focus its discussion on flexicurity.



The Lisbon strategy for growth and jobs

EU governments' individual National Reform Programmes are part of the EU's Lisbon strategy for growth and jobs. The European Commission comments on them every year. Commission's suggestions are tailored to each Member State's circumstance.

Why a European flexicurity policy ?

The European Commission's flexicurity proposals are designed to stimulate debate between the European Commission, the European Parliament, EU Member States, social partners and other interested parties so that EU governments can agree on a set of common principles for flexicurity by the end of 2007.

Flexicurity in Europe

Enhancing working time options for employers and employees

In GERMANY, a number of instruments have been introduced allowing greater working time flexibility for the employees. About 40% of the employees are covered by the system of working time accounts, which gives workers the right to switch between full-time to part-time work, or to reduce their working hours. In certain sectors the working time can be accumulated over a longer period and to allow employees to build up time or monetary claims that they can use for early retirement or sabbaticals.

Promoting skills development

In DENMARK, skills development has been stimulated by a system of job rotation, allowing workers to train while unemployed people temporarily replace them.

LITHUANIA has introduced similar rotation schemes, where the unemployed act as temporary substitutes for up to 12 months for an individual taking leave.

ANNEX I: FLEXICURITY PATHWAYS

Pathway 1: Tackling contractual segmentation

This typical pathway is of interest to countries where the key challenge is segmented labour markets, with insiders and outsiders. This pathway would aim to distribute flexibility and security more evenly over the workforce. It would provide entry ports into employment for newcomers and it would promote their progress into better contractual arrangements.

In these countries, open-ended contracts have been seen as the main access route to protection by labour laws and collective agreements. Training opportunities and social security provisions also tend to depend on having an open-ended contract. Due to attempts to increase labour market flexibility, a high incidence of fixed-term contracts, on-call contracts, agency work, etcetera, has developed. Often workers are on repeated fixed-term contracts for a long time before obtaining an open-ended contract. Rather than as stepping stones, these contracts risk working as traps. In these countries, security tends to rely on job protection rather than social benefits. As a consequence, unemployment benefits are rather low and social assistance systems are weakly developed. Benefit administrations and public employment services, in their present situation, are in need of institutional reinforcement to offer sound management and effective active labour market policies to the unemployed.

Benefits for citizens and society would accrue if effective stepping stones are created enabling workers to enter and progress on the labour market and achieve upward mobility.

Within **contractual arrangements**, this pathway would aim to improve the position of workers on fixed-term contracts, agency work, on-call work, etc. It would ensure that adequate protection is offered to these workers, for example equal pay and a minimum number of working hours for on-call workers. Secondary employment conditions, such as coverage by occupational pension funds and access to training, would also apply to these workers. Legislation and collective agreements would limit consecutive use of non-standard contracts and promote timely progress into better contracts.

A complementary approach would be to redesign the open-ended contract. In this option, workers would have an open-ended contract from the very beginning of the employment relationship with their employer and would no longer, as is now often the case, start with a series of fixed-term or agency contracts. The open-ended contract would be redesigned to include a progressive build-up of job protection. It would start with a basic level of job protection, and protection would build up progressively with job tenure, until 'full' protection is achieved. This 'tenure track approach' would guarantee automatic progress into better contractual conditions; the risk of getting 'stuck' in less protected contracts would thus be reduced.



Redesigning rules for economic dismissals would be envisaged for open-ended contracts, addressing bureaucracy, length of procedures, improving transparency of outcomes, and making the process more reliable.

On **lifelong learning**, employers and public authorities should work together to improve training facilities for temporary workers. At present, these categories often do not receive training opportunities because the employer is not sure how long he or she will keep the worker. Training funds and training institutes at branch or regional level would be installed to ensure that everybody can benefit from training. Incentives for workers and enterprises, including financial contributions and tax credits, would be strengthened to enhance participation.

Active labour market policies would start with strengthening public employment services in terms of staff and skills. Cooperation with market partners, such as temporary work agencies, would be considered. Active labour market policies would be designed to support not only (long-term) unemployed but also those who are experiencing frequent intervals of unemployment.

Social security systems would ensure the possibility for temporary workers to accumulate rights and would improve portability of entitlements across firm or branch borders. They would be remodelled towards providing higher benefits during shorter spells of unemployment. The introduction of a social assistance system would be considered to increase citizens' mobility and make them less dependent on informal family support.

Trust between **social partners** would be further strengthened by creating opportunities for them to make the benefits of change visible to their constituencies.

As to **sequencing and financing**, priority would be given to addressing segmentation, which entails limited direct costs. Measures under lifelong learning and active labour market policies are of the highest importance but may take time to deliver. They also require public and private investments. Improving social security, especially setting up social assistance, may require additional or redeployed public expenditure that must go hand in hand with monitoring and conditionality of benefits in order to ensure that such spending is cost effective. In parallel, redesigning economic dismissal rules would be feasible with putting these conditions in place.

The first pathway is where the major difficulty with labour markets is the division between those with stable long-term contracts and those without stable long-term contracts. Short-term contracts can easily become a trap, with people entering into one short-term contract after another without developing their skills and losing out on other benefits. This pathway concentrates on providing opportunities for workers to move out of short-term and into long-term contracts, e.g. by limiting the use of consecutive short-term contracts.

Pathway 2: Developing flexicurity within the enterprise and offering transition security.

This typical pathway is of interest to countries with relatively low job-flows. It would increase investments in employability to allow workers within enterprises to continuously update their capabilities and thus be better prepared for future changes in production methods, organisation of work. This pathway would also look beyond the actual job and the actual employer, by putting in place systems that provide safe and successful job-to-job transitions in the case of company restructurings and redundancy.

The countries which are addressed by this pathway are dominated by larger enterprises, offering high levels of job protection. Workers are strongly attached to their enterprise and labour market dynamism is rather low. In recent years, this tradition has come under strain because company restructurings and outsourcing are becoming more frequent. Social security systems in these countries are largely well-developed and benefits are adequate. Combining good benefits with strong incentives for accepting jobs remains a challenge. Spending on active labour market policies has often increased strongly, but programmes are not always effective, especially when it comes to offering roads back into employment for long-term unemployed.

Benefits for citizens and society would accrue from enhanced mobility of workers between enterprises. Workers will be more inclined to take risks associated with job transfers if benefits are adequate during transition periods and if prospects for new and better jobs are real.

Contractual arrangements would be made to meet the following requirements: (a) a preventative approach, with continuous investment in lifelong learning (see below), improved working time flexibility and arrangements to combine work and care responsibilities; (b) early intervention, meaning that the search for a new job is not delayed until the worker has been made redundant, but starts immediately when it becomes clear that this is likely, and (c) joint action by all concerned. Employers, social partners, public employment services and temporary work agencies would work together to organise transitions and prevent redundant workers becoming (long-term) unemployed. If these conditions are met, dismissal procedures can be made considerably lighter, less costly and less time consuming.

Enterprises would be expected to forcefully step up their investments in **lifelong learning** and employability of their workforce. This would be done in a way that takes into account the diversity of enterprises and their size. Skills development programmes would offer personal training and career programmes to each employee. Such programmes would be seen as part of the employment contract, constituting a mutual obligation to do everything possible to meet the agreed skills requirements. Employability would also be made an issue of negotiation at enterprise or branch level. Collective agreements would set skills requirements for each relevant profession,



provide training facilities needed to achieve these skills, and set time frames for workers to meet the requirements. In branches dominated by SMEs, cooperation at branch level would be helpful in creating effective human capital development policies.

Active labour market policies, operated by public employment services, would contribute to successful job-to-job transitions (see above). Apart from this, public employment services would focus on the long-term unemployed. They would offer them programmes which would be made more responsive to the demands of the labour market and personalised coaching of jobseekers.

Social security systems would focus on ensuring conditionality of benefits and effective monitoring of job search efforts. Benefit levels, although generally adequate, may need to be raised during the first periods of unemployment, in order to improve the situation of workers in transition.

Although institutional social dialogue is well-developed, trust between the **social partners** is in urgent need of reinforcement, especially at national level. Wherever possible, decentralised levels would be implicated in the negotiations.

As to **sequencing and financing**, priority would be given to measures and investments by enterprises and branches, to further develop internal flexicurity and transition security. This would go hand in hand with refocusing dismissal procedures towards early intervention and transition. Improved active labour market policies would require better spending rather than more spending.

A second pathway is where there is a higher proportion of big companies and a low level of job mobility. The idea here is to increase the employability of workers, with companies updating their skills so that they can either switch to a better job within the company or outside the company. Workers, who have to find a new job, would be offered active support and protection during this transition period.

Pathway 3: Tackling skills and opportunity gaps among the workforce

This typical pathway is of interest to countries where the key challenge is large skills and opportunity gaps among the population. It would promote opportunities of low-skilled people to enter into employment and develop their skills in order to obtain a sustainable position at the labour market.

In these countries, employment rates tend to be high, but not all groups are equally onboard. Upward mobility needs to be promoted. Contractual arrangements tend to be sufficiently flexible, but may in some cases need to provide more protection to weaker groups on the labour market. Skills gaps and opportunity gaps may lead to segmentation in sectors and workplaces as well as in outcomes on the labour market. There are risks that specific groups (women, single mothers, migrants, the disabled, youth and older workers) are being excluded from the labour market. This may result in high shares of people on permanent benefits and could increase poverty rates. Active labour market policies provide strong incentives towards job acceptance, but efforts may be needed to ensure progress in terms of job quality and skills levels.

Benefits for citizens and society would accrue from offering improved chances of social mobility to the low-skilled by preparing people to progress into different professions with new opportunities.

Contractual arrangements would allow low-skilled workers to enter employment at conditions which are favourable to potential employers, but would also allow them to progress into more stable contractual arrangements when their skills improve and the working relationship acquires a more permanent character.

Lifelong learning policies would address opportunity gaps among the workforce, starting at the initial education system. Early school leaving would be fought and general qualification levels of school leavers would be improved. Illiteracy and innumeracy problems among the adult population would be addressed. Workforce training would be targeted especially at the low skilled. Combinations of work and training and mobility between training systems would be promoted. Informal learning would be recognised and validated and low-threshold, easy access language and computer training inside and outside the workplace would be organised. Taking into account their diversity and size, enterprises would develop comprehensive skills strategies, allowing all their staff to train and acquire new skills. Public authorities may improve incentives to enterprises to invest in their workforce, using tax incentives or other instruments. But they would also increase incentives to workers, for example by putting in place a system of individual training accounts. Such accounts would allow workers to spend a certain amount of (working) time and money on their personal development, in cooperation with their employers.



Active labour market policies would distinguish clearly between those jobseekers that are sufficiently skilled, and those who need to strengthen their skills. For the first group, emphasis can be on individual job search support. For the second group, however, active labour market policies would focus on providing adequate training to support upward mobility and sustainable, rather than quick, reintegration.

Social security systems would offer incentives to low-skilled benefit recipients and monitor the conditionality of such benefits in order to ensure that taking up work pays, if necessary by providing supplementary benefits or gradual phasing out of benefits. Thus, they would contribute to avoiding problems of the working poor. They would also contribute to reducing non-wage labour costs of low-skilled workers.

Where the role of **social partnership** is not strongly developed, social dialogue could be revitalised by bringing new issues into the discussion, such as R&D, innovation, and education and skills.

As to **sequencing and financing**, improvements in initial education would be implemented as a priority, but they will take time to deliver. Improved workplace training would require private investments, supported by public incentives. Effective active labour market policies and policies in the social security field to increase the attractiveness of recruiting the low-skilled have to be enhanced.

A third pathway is where there is a wide gap in the level of skills. Here, there are a large number of low-skilled workers and little chance for them to move around in the job market and raise their skill levels. To this end, Finland has introduced a 'change security' concept, which consists of paid time off for workers during their notice period to look for jobs, an employment programme, an increased obligation on employers to inform and negotiate and more effective employment office services.

Pathway 4: Improving opportunities for benefit recipients and informally employed workers.

This typical pathway is of interest to countries which have experienced substantive economic restructuring in the recent past, resulting in high numbers of people on long-term benefits with difficult perspectives of returning to the labour market. It would aim at improving opportunities for benefit recipients and shifting from informal to formal employment through development of effective active labour market policies and lifelong learning systems combined with an adequate level of unemployment benefits.

In these countries, traditional, often industrial, enterprises were forced to lay off large numbers of people. Unemployed workers receive benefits that are often designed as 'labour market exit benefits' rather than 'transition into new employment'. Investments in active labour market policies are limited and chances of finding new employment are low. Benefit administrations and public employment services need institutional reinforcement to provide effective active labour market policies. New economic activity is developing, mostly in services. For benefit recipients, it is difficult to seize the employment opportunities associated with this new economic development. New jobs often have low levels of protection, while some measures that apply to old jobs may be too restrictive. Gender gaps persist. Many people are taking recourse to the informal economy. Weak vocational training systems make difficult for low-skilled workers and young people without work experience to adjust to the requirements of the labour market.

Benefits for citizens and society would accrue from creating new opportunities for the unemployed and from bringing informal economic activity into the formal economy.

Within **contractual arrangements**, it would be ensured that workers employed in emerging sectors of the economy, many of whom work on fixed-term or on-call basis, are offered adequate levels of protection. Regularising informal work could be made more attractive by improving informal workers' rights and providing access to professional training. Higher regularised employment would lead to increased tax revenues and social contributions.. Transitions to formal employment would also require further reforms of labour taxation, business registration requirements as well as strengthening of labour inspectorates and financial institutions combating informal work. Workers on open-ended contracts would benefit from increased investments in their training and early action in case of threatened redundancy. If these conditions are in place, there is less need to apply strict rules with respect to economic dismissals.



Lifelong learning, education and vocational training systems would be developed in close cooperation with enterprises, geared towards labour market needs. Company investments in life-long learning would be stimulated. An obligation for employers to invest in their employees could be a key issue in collective bargaining. Developing lifelong learning and vocational training systems would require close partnership between private companies and public authorities. Better linking the allocation of resources with education outcomes is needed for these systems to be cost-effective.

The administrative capacity of public employment services would be a priority. This requires improvement in terms of staff numbers, skills, decision-making process and work organisation. Cooperation between benefits administrations and public employment services would be strengthened in order to provide effective **active labour market policies**. Active labour market policies would concentrate on long-term unemployed and disabled workers and workers threatened with dismissals. They would provide tailor-made assistance, including programmes more responsive to the needs of the labour market, to successful re-employment of jobseekers. Public-private partnership of all stakeholders (public authorities at all levels, education and training providers, social partners, companies, NGOs, private employment agencies) could contribute to effectiveness of active labour market policies.

On **social security system**, unemployment benefits would be brought at an adequate level, to enable job search without workers taking up informal jobs. At the same time work incentives and the conditionality of benefits, both, for workers and employers, need to be improved. They would encourage, on one hand, people on benefits who can work to look for jobs, and on the other hand, employers to create new jobs. Conditions for the integration of the disabled into labour markets would be facilitated. Portability of social security entitlements would be improved.

The capacity of the **social partners** would be reinforced, e.g. by extending rights to negotiate key elements of working conditions including working time. Governments would promote the creation of comprehensive employer and employee organisations and their merging into larger bodies. Both bipartite and tripartite social dialogue could be strengthened. Social dialogue could also be developed at branch and regional level.

As to **sequencing and financing**, priority would be given to bringing informal work into the formal system. Institutional reinforcement of public employment services and improvements in social security would thus become more affordable. Investments in lifelong learning would require joint efforts of public authorities and enterprises. Re-designing dismissal procedures would be feasible in parallel with improving active labour market policies, lifelong learning and social security.

The fourth pathway is where there has been significant restructuring over the last few years and where the rate of employment and social benefits are on the low side. The challenge here is to ensure that there are more social benefits to give people a better chance of moving around the job market. Another feature of such countries is that people leave their jobs prematurely because of early pension schemes, meaning that skills are lost. Given that companies need people with more skills, the important areas to look at are training, public employment services and pensions/unemployment benefits.

ANNEX II: EXAMPLES OF FLEXICURITY

The following examples illustrate how flexicurity policies can work. They highlight the merits of an integrated approach across at least some of the four components of flexicurity, whereby flexibility and security are mutually reinforcing.

The Austrian severance pay system. Austria combines rather high labour market flexibility with an average level of social benefits, accompanied by effective active labour market policies and strong reliance on social partnership. Austrian labour laws provide for a relatively low de facto level of employment protection, although statistics display an average index. This discrepancy is linked to procedural aspects, which are supportive to relatively smooth dismissal procedures. There is relatively little need for employers to take recourse to fixed-term contracts, the share of which is below average (9% in 2006 against 14.4% EU average). The unemployment rate is among the lowest in Europe (4.8%). Long-term unemployment is at 1.3%. The employment rates meet the Lisbon target (70.2% in total and 63.5% for women). Participation in lifelong learning passed the EU target and is at 12.9% (2005). At 12%, the at-risk of poverty rate is low.

In this context, a very important innovation took place in 2003, when the new system of severance pay came into force. In the old system, severance payment to redundant workers depended on the length of the employment relationship. This meant that workers, when moving from one employer to another, would lose their accumulated rights. The new system obliges the employer to pay a fixed monthly sum into a personalised account held by the worker. Workers may draw from this account in the case of dismissal. The new system eliminates the discouraging effects to mobility and prevents workers from losing their claims in cases of self-termination of the working relationship. Furthermore, the Labour Foundations (Arbeitsstiftungen) are a particularly successful model for easing the consequences of restructurings. They serve as transition agencies to support job-to-job placement in case of threatened mass dismissal, applying the principles of early intervention and joint action by all public and private parties concerned.

The Danish Golden Triangle. The Danish labour market shows a successful combination of flexibility and security, offering flexible labour laws and relatively low job protection, extensive efforts on lifelong learning and active labour market policies, and a generous social security system. This goes back to the so-called 'September agreement' of 1899, which traded the right to recruit and dismiss with the development of a public employment benefit system. In the 1960s, with the establishment of the Public Employment Service, the state took over much of the unemployment risk. In the late 1980s and early 1990s, the active labour market policies were added, aiming to motivate the unemployed to seek and accept jobs as well as upgrade their qualifications. Skills development was stimulated by a system of job rotation, allowing workers to train while unemployed persons temporarily replace them. Together, these elements form the so-called Golden Triangle of flexible contractual arrangements, generous social security and welfare schemes and extensive active labour market policies. Denmark is characterised by very high employment rates (77.4% in 2006), very low unemployment (3.9%), youth unemployment (7.7%) and long-term unemployment (0.8%), high job turnover (one fourth of employees having been with the same employer for less than one year), high participation in lifelong learning (27.4%), low at-risk-of-poverty rate (12%) and a high general feeling of security among the population.



Temporary work in the Netherlands. The Dutch 'Wassenaar Agreement' (1982) traded wage moderation for employment, and paved the way for the development of part-time jobs in the context of collective agreements. Part-time jobs are mostly open-ended contracts and should not be confused with 'precarious employment'. The large majority of part-time workers, who are mostly women, do so voluntarily. During the 1990s, relative inflexibility of the labour market was a rising concern, but public authorities could not reach agreement on labour law modernisations. Social Partners (in the Foundation of Labour) were finally invited to negotiate a package deal. Their deal concentrated on strengthening the position of workers on temporary contracts, thus reducing precariousness without taking away the flexibility aspect. It contained three main ingredients: (1) limiting the consecutive use of fixed-term contracts to three (the next contract being open-ended); (2) eliminating obstacles for temporary agencies; (3), recognition of fixed-term and temporary agency contracts in the labour code and introducing minimum protection and payment. Temporary agency workers would be covered by a collective agreement providing wage guarantees, training and supplementary pension. The agreement was cast into legislation; the Flexibility and Security Act went into effect on 1 January 1999. During the 1990s, the Netherlands saw a drastic reduction of unemployment and a strong job creation. Employment rates are high, in general (74.3% in 2006) as well as for women (67.7%). Employment in full-time equivalents is lower due to the high part-time rate. Unemployment is low (3.9%), and so are youth unemployment (6.6%) and long-term unemployment (1.7%). Participation in lifelong learning is relatively high (15.9%). At 11%, the at-risk of-poverty rate is relatively low.

Fixed-term contract reduction in Spain. Spain experiences a persistently high share of fixed-term contracts, covering about 34% of total employment. A comprehensive agreement was signed in May 2006, running until the end of 2007, between the social partners and supported by the Government, curtailing the excessive use of fixed-term contracts and easing requirements on employers. Any worker having signed two or more fixed-term contracts with the same company, and having served in the same post for more than 24 months within a period of 30 months, automatically acquires an open-ended contract; in this contract obligatory severance is reduced from 45 to 33 days' pay per year worked.

The 'Towards 2016' Social Partner agreement in Ireland. The Irish economy and labour market have gone through a period of rapid change in recent years. Ireland has been transformed from a low-income, slow-growth economy with high unemployment rates into a country with high growth, high income and low unemployment. Ireland has a flexible labour market and is strengthening its investment in active labour market policies (0.75% of GDP as compared with the EU average of 0.5%). Low educational attainment of older workers (41.7% of 45-54 year olds with at most lower secondary level) reflects earlier under-investment in education, but this is improving considerably for younger generations. Lifelong learning participation still falls short of EU best performers and reflects difficulties in ensuring opportunities for low-skilled and older workers. The 2006 'Towards 2016' agreement is taking up these challenges with a comprehensive approach. It identifies a need for greater participation, productivity and activation, with a greater focus on the long-term unemployed, unemployed youths and those who are furthest from the labour market. It also highlights that skills upgrading must focus on workplace learning (including basic skills) and on lower-skilled and vulnerable workers as well as migrants. It outlines plans to expand workplace learning, and to increase funding for the Workplace Basic Education Fund aimed at tackling illiteracy and innumeracy problems.

ANNEX III: BACKGROUND INDICATORS RELEVANT FOR FLEXICURITY

The indicators listed below, the majority of which are taken from the agreed list of indicators for monitoring the European Employment Guidelines, can be seen as relevant for each of the four components, as well as for general labour market outcomes.

A. Flexible contractual arrangements

- Strictness of employment protection, total, for permanent and non-permanent employees (OECD)
- Diversity of and reasons for contractual and working arrangements. (EUROSTAT)

B. Comprehensive lifelong learning strategies

- Percentage of the adult population between 25 and 64 participating in education and training (EUROSTAT)
- Educational attainment of age cohorts 45-54 and 25-34 (share of the population with at least upper secondary education (EUROSTAT)

C. Effective active labour market policies

- Expenditure on active and passive labour market policies as a percentage of GDP (EUROSTAT)
- Expenditure on active and passive labour market policies per unemployed person (EUROSTAT)
- Number of participants in active labour market policies, by type of measure (OECD)
- Share of young or adult unemployed not having been offered a job or an activation measure within 6 or 12 months respectively (EUROSTAT)

D. Modern social security systems

- Net replacement ratios in the first as well as after 5 years (OECD)
- Unemployment trap, seen as a measure of benefit levels (OECD-EUROSTAT)

E. Labour market outcomes

- Employment rate, total, for women, and for older workers (EUROSTAT)
- Youth unemployment ratio (15-24 years) (EUROSTAT)
- Long-term unemployment rate (EUROSTAT)
- Growth in labour productivity (EUROSTAT)
- Quality in work (under construction)
- At-risk-of-poverty rates (EUROSTAT)

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