

# **Flexicurity Pathways**

**Expert Group on Flexicurity  
Interim report from the rapporteur  
Presented at the Stakeholder Conference on Flexicurity,  
Brussels, April 20<sup>th</sup>, 2007**

## **Introduction**

This report presents preliminary findings of the Expert Group on Flexicurity that was established in September 2006. The Group was set up by DG Employment, Social Affairs and Equal Opportunities (DG EMPL) and consists of 7 experts chosen on the basis of their academic record and, for two, of their relationship with social partners. The group's main task is to review relevant academic literature and practices in Member States and other OECD countries. It will also advise the Commission on preconditions of flexicurity, adequate indicators, Member States' starting positions and flexicurity pathways. This interim report has been prepared by the rapporteur that was designated within the group.

The debate on how EU labour markets should be modernised is not only complicated from a technical point of view because of the many variables involved but especially because it is politically sensitive. The group is expected to produce an original and policy relevant report that will enrich the debate and complement the analysis provided by other stakeholders including the Commission. A Communication on Flexicurity, foreseen for adoption in June, will reflect various contributions and will propose a basis for a set of common principles to be discussed in the Council. At the Flexicurity Stakeholders Conference the Group hopes to benefit from discussions and suggestions.

## **What is flexicurity?**

1. Flexicurity is a policy strategy to enhance, at the same time and deliberately, the flexibility of labour markets, work organisations and labour relations on the one hand, and security –employment security and social security – on the other. The key principles that underpin a flexicurity strategy are that flexibility and security should not be seen as opposites, but can be made mutually supportive.
2. Encouraging flexible labour markets and ensuring high levels of security will only be effective if workers are given the means to adapt to change, to enter into employment, to stay on the job market and to make progress in their working life. Therefore, the concept of flexicurity includes a strong emphasis on active labour market policies, and motivating lifelong learning and training - but also on strong social security systems to provide income support and allow people to combine work with care. This should also contribute to equal opportunities and gender equality.

## **Why flexicurity?**

3. There is a clear need for new securities that respond to the insecurities related to modern economies and labour markets. European citizens' and companies' trust in future employment opportunities, in the development of human capital, in decent work and labour market developments and in a supportive business climate and increased business potential needs to be further enhanced. Enterprises need to anticipate better by investing in human resources; workers need new kinds of security that help them remain in employment, or return to employment if they lose their job.
4. Despite favourable developments in terms of decreasing unemployment and rising participation rates, unemployment is still too high in most Member States and unevenly distributed. Compared to the EU's main competitors, there is also a considerable productivity gap, both in terms of productivity per worker and productivity per hour worked. Due to labour market segmentation, a large share of European workers lack adequate security levels and the underinvestment in human capital is significant. At-risk-of-poverty rates are still too high and vary considerably between countries, from lows at around 10% of the population to highs above 20%.

The need to reduce segmentation originates from value systems comprising welfare, participation, solidarity and dignity that are considered key within the EU framework.<sup>1</sup>

### **Flexicurity is in the interests of both workers and employers**

5. In today's labour markets a high degree of flexibility and adaptability can be in the interests of both employers and employees. Workers also need 'active' flexibility to be able to combine work and private responsibilities; companies need flexibility to anticipate and respond to changing market demands and circumstances. At the same time, security, in a dynamic perspective, is not just a matter of protecting the worker against losing his or her job. It is about building and preserving people's ability to enter, remain and progress in employment throughout the life-cycle. It is also about the security for firms to preserve and improve their market position, the loyalty of their workforce and their productivity and job creation potential within a increasingly competitive environment.
6. The idea of synergy between flexibility and security is not new to the EU. At the request of the Commission, European social partners have successfully negotiated agreements about parental leave, part time work and fixed-term contracts. In addition, there are also autonomous agreements on telework and lifelong learning. Moreover, social partners the EU and in the Member States are responsible for a variety of recommendations, guidelines, guides to good practice, joint opinions and declarations.<sup>2</sup> Finally, there is the paramount role of collective bargaining. Collective bargaining has a double role, both as an important 'regulatory force' (to regulate contractual and employment relations as well as internal and external flexibility in a broad range of areas, from working time to agency work, from work organisation to the reconciliation of work, private and family life, etc.), as in its role to provide a democratic and participatory process for modernisation and change.
7. Flexicurity could best be seen as a system of joint and mutual risk management for workers and employers. Employers face the risk of a degrading market position due to increased competition, but also the risk of a quantitative and qualitative mismatch of

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<sup>1</sup> See the Communication from the Commission on European Values in the Globalised World, 20.10.2005 COM(2005) 525 final, the EU Charter on Fundamental Rights and the Berlin Declaration (Declaration on the occasion of the fiftieth anniversary of the signature of the Treaties of Rome) of 25 March 2007.

<sup>2</sup> See e.g, the Work Programme of the European Social Partners 2006-2008 where the balance between flexibility and security is mentioned as one of the key challenges in view of which a joint analysis will be undertaken.

labour supply as a result of demographic change and varying preferences and competencies at the workers' part. For workers job or employment security and the possibility of reconciling work and private life may be at risk following business responses to globalization and intensified competition. Therefore joint and mutual risk management is needed. Contributing to the risk management of the other party does contribute to managing one's own risks. It is crucial that not merely current risks but also future risks are addressed, as the needs for flexibility and security can and do vary across the life course and the business-cycle.

### **Making flexicurity operational**

8. The Commission and the Member States, drawing on experience of previous work, have reached a consensus on a definition of flexicurity which comprises four components<sup>3</sup>:

- Flexible and secure contractual arrangements and work organisations, both from the perspective of the employer and the employee, through modern labour laws and modern work organisations.
- Active Labour Market Policies (ALMP) which effectively help people to cope with rapid change, unemployment spells, reintegration and, importantly, transitions to new jobs – i.e the element of *transition security*.
- Reliable and responsive lifelong learning (LLL) systems to ensure the continuous adaptability and employability of all workers, and to enable firms to keep up productivity levels.
- Modern Social Security systems which provide adequate income support and facilitate labour market mobility. This includes provisions that help people combine work with private and family responsibilities, such as childcare.

It is important to add, as a kind of process variable (how to make it work)

- Supportive and productive social dialogue, mutual trust and highly developed industrial relations are crucial for introducing comprehensive flexicurity policies covering these components.

Flexicurity as integrated policy-making addresses all these issues at the same time.<sup>4</sup>

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<sup>3</sup> These four components were included in the January 2006 Annual Progress Report. The 2007 Joint Employment Report, adopted by the EPSCO Council in February 2007, refers to these components.

9. Flexicurity covers transitions and adjustments within an enterprise (internal flexicurity) as well as transitions from job to job between enterprises and between employment and self-employment (external flexicurity). High quality work places with capable leadership, good organisation of work, and continuous upgrading of skills are part and parcel of the concept of flexicurity. This includes measures that maintain and improve work capacity and offer possibilities to reconcile work and family life. All these measures are a key to improved productivity and longer working lives and aim at simultaneously increasing both labour productivity and wellbeing in European work places.
  
10. Flexicurity challenges the idea that permanent contracts, i.e. of indefinite duration, are obsolete and that non-permanent employment is the future. The objective would rather be to reduce the gap between the two, enabling smooth and timely transitions from unemployment into a job and promote progress into better employment. This is linked to a major issue flexicurity aims to address: labour market segmentation. Some workers, in particular women, older workers, ethnic minorities and the unskilled, are trapped in less secure and less productive employment, or undeclared work, with fewer opportunities to progress into better jobs. Therefore, attention should be paid to improving transitions between 'not working' and 'working', and between various types of 'flexi-secure' contracts. Indeed, workers in standard employment would also benefit from supported transitions in those cases where protection of their specific job would no longer be effective and where employment security is needed to complement job security and warrant future employment opportunities. The flexibility of standard contracts and the security of non-standard contracts could be enhanced by having a system where certain entitlements (not the basics) and elements of protection are being built up gradually. Furthermore, it is important that systems of protection are prospective, i.e. that they do not restrict the future employment prospects of workers.

**There is not one way that leads to Rome ...**

11. Resulting from consultations and negotiations at national level, flexicurity can take different forms from country to country. In some cases, flexicurity will focus more on solutions within companies, in other cases it will concentrate on transitions between jobs and from employer to employer. Sometimes it will focus more on the interplay between

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<sup>4</sup> European Commission's 2006 Annual Progress Report (January 25<sup>th</sup>, 2006, COM (2006)30; pp. 19-20)

relatively flexible rules of economic dismissals in combination with high benefits, whereas in other cases emphasis will be on safe bridges from work to work organized by social partners and public employment services. The role of temporary work agencies, for example, will also differ from country to country.

### **Flexicurity pathways**

12. Flexicurity practices in various countries demonstrate that flexibility and security, if designed in the right way, can be mutually reinforcing. Member States can learn a lot from each other. Therefore, mutual learning in the flexicurity field is to be strongly encouraged. The 2006 Spring European Council stressed the need "to develop more systematically in the National Reform Programmes comprehensive policy strategies to improve the adaptability of workers and enterprises. It noted that the Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity." This expert report underlines the idea of common principles, to be developed further jointly by the European Commission and other stakeholders. At the same it concludes that in turning principles into practice a one-size-fits-all approach is not appropriate. Therefore, in the report four alternative but also complementary flexicurity pathways are mapped out across five components of flexicurity that were identified: flexible and secure contractual arrangements, upgrading active labour market policies to strengthen transition security, systematic life-long learning systems, modern social security systems and a supportive and productive social dialogue. By addressing pathways in a concrete manner, the report aims at contributing to both the quality and the concreteness of the current debate on flexicurity in Europe. The flexicurity examples found in Europe can inspire concrete steps within the distinct flexicurity pathways.
13. The report outlines the various concrete steps that Member States could envisage to take, in discussion with relevant stake-holders, in order to define their own flexicurity pathway. The report pays specific attention to the role of the social partners in developing flexicurity pathways, negotiating the various modalities of flexicurity, and bringing about the necessary support for adaptation and change. As not only the precise challenges but also the starting positions of the Member States vary, the solutions must reflect and respect this diversity, related to the way in which Member States' legal systems, labour market institutions and industrial relations have developed in the course of history. Flexicurity is not about following one model of development, it is about seeking inspiration rather than imitation. The four pathways can be summarized as follows:

**Pathway 1: Reduce gaps between non-standard and standard employment by making standard contracts more attractive to firms and social security more inclusive**

In short, this pathway addresses the issue of flexibility at the margin of the labour market. It suggests to reduce asymmetries between standard and non-standard work by integrating non-standard contracts fully into labour law, collective agreements, social security and life-long learning systems. Another option to combat flexibility at the margin could be to make standard contracts more attractive to companies by introducing an open ended contract in which specific elements of protection are built up progressively with time, until 'full' protection is achieved. Such a contract guarantees basic but adequate protection from the start and automatically builds up 'full' protection as the working relationship continues. Social partners and governments should negotiate the terms of these arrangements.

**Pathway 2: Reduce gaps between standard and non-standard employment and enhance companies adaptability by developing and strengthening transition security**

This pathway addresses both *internal* and *external flexicurity*. It suggests to further strengthen internal flexicurity: introduce more working-time flexibility, develop individual working-time accounts, and paid leave, negotiated between the employee and the employer, taking into account both workers' and firms' flexibility and adaptability needs. Built-in contractual guarantees and HRM policies should ensure timely progress into new jobs either within the company or outside the company once the necessity arises. Furthermore, it may be feasible to introduce individualised transition guarantees to redundant workers, to be borne jointly by employers, social partners and public employment services in order to prevent unemployment. A strong system of lifelong learning and vocational training, inside but also outside companies, allowing for quick moves into effective training funds and facilities at branch level, should be the basis for productive labour market transitions.

**Pathway 3: Address opportunity and security gaps among the workforce by embarking on a higher road towards a knowledge-oriented economy by deepening investments in skills**

This pathway recommends to proceed, on the basis of existing levels of labour market dynamism, on the high road towards competitiveness and productivity and to deepen investments in skills and R&D. Thus the employment and security opportunities and options of specific groups in the labour market can be enhanced and productivity growth can be brought to a higher level. A broad-ranged approach is needed to keep the labour

market accessible for the low-skilled and for other groups that are at risk of becoming long-term unemployed or excluded in other ways. Flexicurity benefits from the possibility to conclude binding agreements at branch or regional level, combining provisions on how to address the flexibility needs of employers and workers with investment in training in particular. Where the institutional structures for such agreements are not yet in place, support from the social partners and government is needed.

**Pathway 4: Enhance employment opportunities for benefit recipients, prevent long-term welfare dependence, regularize informal work and build up more institutional capacity for change**

This pathway starts from the urgent need to increase the employment and job opportunities of persons who are currently on social security benefits or working in the informal sector. Active labour market policies and social security should offer sufficient opportunities and incentives, in terms of increased conditionality of benefits, to return back to work and to facilitate this transition. Thus, long-term welfare dependence should be prevented. Informal work can be regularized by offering flexi-secure contracts, lower payroll taxes and a skills perspective to these sectors. By formalizing informal economic activities increased financial resources can be raised for building up a more comprehensive social security system. Stronger institutional capacity needs to be developed and promoted by giving the social partners rights to negotiate key elements of working conditions and by better cooperation between labour market and benefits institutions.

**The wider context of flexicurity**

14. It should be kept in mind that flexicurity pathways should be pursued in a wider context of sound macro- and micro-economic politics. According to the revised OECD Jobs Strategy<sup>5</sup> the interaction of macroeconomic policies with reform packages plays an important role in determining labour market performance. Flexible and open product markets enable firms to seize new opportunities, create and expand businesses, thereby creating jobs. Well-functioning and sustainable capital markets provide innovators and entrepreneurs with efficient access to finance, enabling them to fund new ideas and create new businesses in the economy, which again has a positive effect on levels of job creation and opportunities in the labour market.<sup>6</sup>

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<sup>5</sup> <http://www.oecd.org/dataoecd/47/53/36889821.pdf>

<sup>6</sup> All these issues were underlined during the Hampton Court meeting of the European Council (October 27<sup>th</sup>, 2005)



Within this context the report looks at the financial aspects of these pathways, thereby concluding that investments do have to be made, in various degrees, either by the governments, employers or workers themselves, but that in the long run the benefits will almost certainly outweigh the costs as labour market participation will go up, (long-term) reliance on social security benefits will decrease and administrative costs can be reduced. From this perspective, it is essential that Member States engage in a broader debate on risk allocation and risk sharing and the idea of mutual risk management.

15. The scope of labour market regulation and employment rights is broader than those aspects looked at within flexicurity. It also encompasses rights such as representation and consultation, regulation of working conditions and non-discrimination.<sup>7</sup> Evidently these rights should also apply to all workers. This has been acknowledged by the European Commission by linking its flexicurity policies to the Decent Work agenda as developed by the ILO.<sup>8</sup>

### **Preliminary conclusion**

16. Finally, this report stresses that flexicurity should be considered a positive sum game, as opposed to a zero or negative sum game where only one party wins and the other loses. Flexicurity strategies should aim at win-win situations and reflect and respect diversity within the EU. This also implies that change and the sequencing of changes can be best designed as integrated and broad policy packages. Flexibility can be a precondition for security and security can be a precondition for flexibility – these aspects should be seen as mutually reinforcing so as to provide a quality response and adjustment, based on European values, to the challenges of globalisation and demographic change.

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<sup>7</sup> See also A. Giddens (2007), *Europe in the Global Age*. Cambridge: Polity Press, p. 21.

<sup>8</sup> See the Communication from the Commission, *Promoting decent work for all. The EU contribution to the implementation of the decent work agenda in the world*. Brussels, 24 May 2006, COM (2006) 249. {SEC(2006) 643}. It is stated that (p, 2): ‘the decent work agenda (...) seeks not only to guarantee a minimum basis of rights but also to tailor development to values and principles of action and governance which combine economic competitiveness with social justice.’