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## Monitoring flexicurity policies in Europe from three different viewpoints

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# **Monitoring flexicurity policies in Europe from three different viewpoints<sup>1</sup>**

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**WSI-Diskussionspapier Nr. 145**

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## Abstract

The notion of *flexicurity* promotes the idea of compensation of labour market deregulation (= flexibilization) with advantages in employment and social security. To monitor effects of flexicurity policies in Europe, flexicurity indicators are constructed. The European flexicurity policies are analyzed in the neo-liberal perspective, from the trade-unionist viewpoint, and within the conception of European welfare state. The empirical investigation shows that, contrary to political promises and theoretical considerations, the deregulation of European labour markets is absolutely predominating. To surmount this policy contradiction, a so called *flexinsurance* is proposed, meaning that the employer's contribution to social security should be proportional to the flexibility of the contract/risk of becoming unemployed.

**Keywords:** flexicurity, labour market flexibility, social security, composite indicators.

### JEL Classification:

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- C43 Index Numbers and Aggregation
- C51 Model Construction and Estimation
- J21 Labor Force and Employment, Size, and Structure
- J26 Retirement; Retirement Policies
- J65 Unemployment Insurance; Severance Pay; Plant Closings
- J83 Workers' Rights
- J88 Public Policy

## Monitoring der Flexicurity-Politiken in Europe von drei verschiedenen Standpunkten

Das Konzept *Flexicurity* umfasst die Kompensation der Arbeitsmarktderegulierung (= Flexibilisierung) durch Fortschritte in der Beschäftigungssicherheit und sozialen Sicherheit. Um die Flexicurity-Politiken in Europa nachzuvollziehen, werden Flexicurity-Indikatoren entwickelt. Die europäischen Flexicurity-Politiken werden in der neo-liberalen Perspektive, vom gewerkschaftlichen Standpunkt und im Rahmen der Konzeption des europäischen Wohlfahrtsstaates analysiert. Die empirische Studie zeigt, dass entgegen politischer Versprechungen und theoretischer Betrachtungen die Deregulierung der europäischen Arbeitsmärkte absolut dominiert. Um den politischen Widerspruch zu beseitigen, wird eine so genannte Flexinsurance (= Flexicurity-Versicherung) vorgeschlagen. Der Beitragsanteil des Arbeitgebers zu den sozialen Kassen soll proportional zu der Flexibilität des Arbeitsvertrages und dem entsprechenden Risiko der Arbeitslosigkeit gebildet werden.

**Stichwörter:** Flexicurity, Arbeitsmarktflexibilität, soziale Sicherheit, zusammengesetzte Indikatoren.



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## Introduction

A general flexibilization of employment relations is already adopted by the European Union as a means to enhance economic performance and to support sustainable development. Employers wish to share the burdens of competition with employees, and politicians seek to shift the responsibility for employment from the state to individuals. The solidarity is getting to be restricted to those who are unable to receive a sufficient income, and the adherents of the economically more competitive and socially more “hard” Anglo-Saxon model are becoming more influential.

In most of the post-war Europe, employment relations were regulated by rather constraining employment protection legislation and by collective agreements between employers and trade unions. The actual contradiction between the flexibilization pursued by employers and strict labour market regulation defended by trade unions makes topical the discussion on flexibilization and employment protection legislation with regard to economical performance and unemployment.

The advantages and disadvantages of labour market regulation/flexibility versus employment were investigated by numerous scholars; for a review focusing on European welfare states as defined by Esping-Andersen (1990) see Esping-Andersen (2000a–b). As concluded by Esping-Andersen (2000b, p. 99), “the link between labour market regulation and employment is hard to pin down”. The same empirical evidence, that unemployment is practically independent of the strictness of employment protection legislation, was reported by the OECD (1999b, pp. 47–132). There were even cases when the same legislative changes caused different effects. For instance, the impact of almost equal deregulation measures on the use of fixed-term contracts “was sharply different” in Germany and Spain (OECD, 1999, p. 71).

At the same time, a good labour market performance under little regulation was inherent in the Anglo-Saxon model, that is, USA, Canada, United Kingdom, and Australia (Esping-Andersen 2000a). The deregulation of labour market in the Netherlands, which had a different kind of economy, coincided with the “Dutch miracle” of the 1990s (Visser and Hemerijck 1997, Gorter 2000, van Oorschot 2000). A similar Danish practice in the background of “Eurosclerosis” (Esping-Andersen 2000a, p. 67) was successful as well (Björklund 2000, Braun 2001, Madsen 2004). All of these convinced some scholars and politicians of the harmlessness and even usefulness of labour market deregulation. It was believed that employment flexibility improved competitiveness of firms and thereby stimulated production, which in turn stimulated labour markets.

The claims for flexibilization met a hard resistance, especially in countries with old traditions of struggle for labour rights. Wilthagen and Tros (2004, p. 179) reported with a reference to Korver (2001) that the *Green Paper: Partnership for a New Organisation of Work* of the European Commission (1997) “which promoted the idea of social partnership and balancing flexibility and security” got a very negative response from French and German trade unions, because “the idea of partnership represents a threat to the independence of unions and a denial of the importance of worker’s rights and positions, notably at the enterprise level”. The ILO published a report, concluding that “the flexibilization of the labour market has led to a significant erosion of worker’s rights in fundamentally important areas which concern their employment and income security and (relative) stability of their working and living conditions” (Ozaki 1999, p. 116).

To handle the growing flexibility of employment relations with lower job security and decreasing eligibility to social benefits, the notion of *flexicurity* has been introduced. Wilthagen and Tros (2004) ascribe its conception to a member of the Dutch Scientific Council of Government Policy, Professor Hans Adriaansens, and the Dutch Minister of Social



Affairs, Ad Melkert (Labour Party). In the autumn of 1995 Adriaansens launched this catchy word in speeches and interviews, having defined it as a shift from job security towards employment security. He suggested compensating the decreasing job security (fewer permanent jobs and easier dismissals) by improving employment opportunities and social security.

For instance, a relaxation of the employment protection legislation was supposed to be counterbalanced by providing improvements to temporary and part-time workers, supporting life-long professional training which facilitates changes of jobs, more favorable regulation of working time, and additional social benefits. In December 1995 Ad Melkert presented a memorandum *Flexibility and Security*, on the relaxation of the employment protection legislation of permanent workers, provided that temporary workers got regular employment status, without however adopting the concept of flexicurity as such. By the end of 1997 the Dutch parliament accepted flexibility/security proposals and shaped them into laws which came in force in 1999.

The OECD (2004b, p. 97–98) ascribes the flexicurity to Denmark with its traditionally weak employment protection, highly developed social security, and easiness to find a job; see also Madsen (2004) and Breedgaard et al. (2005). Regardless of the priority in inventing the word *flexicurity*, both countries were recognized "good-practice examples" (Braun 2001, van Oorschot 2001, Kok et al. 2004) and inspired the international flexicurity debate. Although some authors still consider flexicurity a specific Dutch/Danish phenomenon (Gorter 2000), the idea spread all over Europe in a few years; for a selection of recent international contributions see Jepsen and Klammer (2004). At the Lisbon summit of 2000 the EU had already referred to this concept (Vielle and Walthery 2003, p. 2; Keller and Seifert 2004, p. 227, Kok et al. 2004), and after the meeting in Villach in January 2006 flexicurity became a top theme in the European Commission (European Commission 2006).

Since the concept is rather new, there is neither an "official" definition of flexicurity, nor means for its quantitative characterization. This study attempts to operationally define flexicurity, and to apply this definition to reflect three viewpoints: of neo-liberals, of European welfarism, and of trade unions. The flexicurity indices for European countries for the recent years are derived from several types of data available from the OECD, European Commission, and Eurostat. The factual rather than purely legislative situation is reflected by weighting institutional indicators with the variable size of employment and unemployment groups with different eligibility to social security benefits.

The results are not encouraging. Contrary to theoretical opinions and political promises, the current deregulation of European labour markets is not adequately compensated by improvements in social security. Flexibilization resulted in an increase of unemployment and in a disproportional growth of the number of atypically employed (= other than permanent full-time, like part-time, fixed-term) or self-employed (Eurostat 2005, Schmid and Gazier 2002). After the flexicurity advantages/disadvantages have been accounted proportionally to the size of the groups affected, the factual trends turn out to be negative even from the viewpoint of neo-liberals, to say nothing of European welfarism and of trade unions. The reciprocity between the advantages/disadvantages is illusory, because gains are smaller than losses and winners are fewer than losers. Thus the study warns against promoting flexicurity policies with no operational control and empirical feedback. To surmount negative effects, a so called *flexinsurance* is proposed, meaning that the employer's contribution to social security should be proportional to the flexibility of the contract/risk of becoming unemployed.

## Flexicurity as flexibility–security trade-offs

Wilthagen and Tros (2004, p. 169) define flexicurity as follows:

**Definition 1.** [*Flexicurity is*] a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organization and labour relations on the one hand, and to enhance security — employment security and social security — notably for weak groups in and outside the labour market on the other hand.

It is emphasized (p. 170) that flexicurity is not "simply social protection for flexible work forces as Klammer and Tillmann (2001), Ferrera et al (2001) and many others tend to analyze it". According to Wilthagen and Tros (2004, p. 167), flexicurity policies aim at increasing the competitiveness of European economies by their further liberalization, attaining a compromise between employers, who seek for the deregulation of labour markets, and employees, who wish to protect their rights. It explicitly manifests itself in the description of flexicurity as a flexibility versus security trade-off (cf. with the word "deliberate" in the above definition); see Visser and Hemerijck (1997, p. 44), Wilthagen and Tros (2004, p. 171), Kronauer and Linne (2005), and Ramaux (2006). Let us consider notions *Flexibility* and *Security* in some detail to better understand which trade is proposed.

The *Flexibility* stands for a multivariate aggregate which, according to the OECD (1989, p. 13–20), includes:

- *External numerical flexibility (employment flexibility* by Standing 1999, p. 101–114; *numerical flexibility* by Regini 2000, p. 16, *external quantitative flexibility* by Vielle and Walthery 2003, p.8) defined as the employer's ability to adjust the number of employees to current needs. In other words, it is the ease of "hiring and firing" which manifests itself in the mobility of workers between employers (external job turnover).
- *Internal numerical flexibility (work process or functional flexibility* by Standing 1999, p. 114–116; *temporal flexibility* by Regini 2000, p. 17, *internal quantitative flexibility* by Vielle and Walthery 2003, p.8) which is the employer's ability to modify the number and distribution of working hours with no change of the number of employees. It appears in shiftworking, seasonal changes in the demand for labour, weekend/holiday working, overtime and variable hours, see also Keller and Seifert (2004, p. 228).
- *Functional flexibility (job structure flexibility* by Standing 1999, p. 117–124; *internal-functional flexibility* by Keller and Seifert 2004, p. 228, *internal qualitative flexibility* by Vielle and Walthery 2003, p. 8), that is, the employers' ability to move their employees from one task or department to another, or to change the content of their work. It is reflected by the mobility of workers within enterprises (internal labour turnover), see also Regini (2000, p. 16).
- *Wage flexibility (flexible or variable pay* by Wilthagen and Tros 2004, p. 171), which enables employers to alter wages in response to changing labour market or competitive conditions. Typically, employers seek for applying individual performance-linked rewarding systems additionally to (or instead of) usual collective agreements independent of individual performance, see also Regini (2000, p. 16–17, 19–21).
- *Externalization flexibility (external functional flexibility* by Keller and Seifert 2004, p. 228; one of constituents of *job structure flexibility* by Standing 1999, p. 123; *external qualitative flexibility* by Vielle and Walthery 2003, p. 8, that is, the employers' ability

to order some works from external workers or firms without employment contracts but with commercial contracts in such forms as distance working, teleworking, virtual organizations, and *entreployees*, that is, self-entrepreneurial activities, see Pongratz and Voß (2003).

The notion of *Security* also includes several issues. For instance, Standing (1999, p. 52) enumerates seven types of security. They are not all relevant to the flexicurity debate, like *labour market security* through state-guaranteed full employment in socialist countries. Within the debate Vielle and Walthery (2003, p. 18–19), following Dupeyroux and Ruellan (1998), focus the attention at compensatory functions of securities in case of unemployment, illness, advancing age, maternity, invalidity, as well as exceptional medical or family burdens (decommodification in the sense of Esping-Andersen (1990)). More specifically, Wilthagen, Tros and van Lieshout (2003, p. 4) restrict consideration to the following four types of security:

- *Job security (employment security)* by Standing (1999, p. 52)), 'the certainty of retaining a specific job with a specific employer'. It is guaranteed by the protection of employees against dismissals and against significant changes of working conditions. This is the main subject of the employment protection legislation.
- *Employment/employability security (job security)* by Standing (1999, p. 52)), the 'certainty of remaining at work (not necessarily with the same employer)'. It means the availability of jobs for dismissed and unemployed, corresponding to their qualification and previous working conditions. The employability of job seekers can be improved by life-long professional training which can be offered both by employers and by training programs within active labour market policies; see Keller and Seifert (2004, p. 235). Tros (2004, p. 5) also mentions *entreployees*, organization of firm-firm job pools, and facilities for work-work transitions.
- *Income (social) security*, the 'income protection in the event that paid work ceases'. Standing considers it more generally as protection of income through minimum wage machinery, wage indexation, comprehensive social security, including progressive taxation, provisions for old age (post-employment security by Keller and Seifert 2004, p. 236–238), etc.
- *Combination security* (not considered by other authors cited), "the certainty of being able to combine paid work with other social responsibilities and obligations. This last form of security cannot be traced back to the other forms of security". Tros (2004, p. 5) explains it further as a work-life balance, work-family balance, early flexible part-time retirement, flexible working hours, and leave facilities.

Thus, a flexicurity policy is imagined as an increase in the five types of flexibility compensated by improvements in four types of security.

## Tracing flexicurity trade-offs with matrices

Matrices like in Table 1 are often suggested "as a heuristic tool to trace flexicurity policies as specific trade-offs" (Wilthagen and Tros 2004, p. 171). The cells of the table show policy measures relevant to the intersecting types of flexibility and security. Some measures are multi-relevant, like *entreployees*, appearing at several row/column intersections. Such tables well illustrate the compound structure of *Flexibility* and *Security* but at a closer look fail to describe flexicurity trade-offs.

**Table 1. The matrix aimed at tracing flexibility versus security trade-offs with a flexicurity policy for older workers as given by Tros (2004)**

	<b>Job security</b>	<b>Employment security</b>	<b>Income security</b>	<b>Combination security</b>
<b>External numerical flexibility</b>		Firm-firm job pools Facilities work-work transitions Older enterployees	Retirement arrangements	
<b>Internal numerical flexibility</b>	Part-time work Flexible retirement Part-time enterployees		Flexible retirement	Part-time retirement Flexible age (pre-pension) Flexible working hours Leave facilities
<b>Functional flexibility</b>	Education/training Adaptation in working hours/ tasks	Education/training Seniority/bridge works Job rotation Age-aware cereer and job structures		

**Table 2. The Dutch Law on Flexibility and Security (extraction) from January 1, 1999, as given by Wilthagen and Tros (2004), which cannot be inscribed into Table 1**

<b>Flexibility</b>	<b>Security</b>
<ul style="list-style-type: none"> <li>Adjustment of the regulation of fixed-term employment contracts: after 3 consecutive contracts or when the total length of consecutive contracts totals 3 years or more, a permanent contract exists (previously this applied to fixed-term contracts that had been extended once).</li> <li>The obligation of temporary work agencies (TWA) to be in possession of a permit has been withdrawn. The maximum term for this type of employment (formerly 6 months) is abolished as well.</li> <li>The notice period is in principle 1 month and 4 months at maximum (used to be 6 months).</li> </ul>	<ul style="list-style-type: none"> <li>Introduction of so-called presumptions of law which strengthen the position of atypical workers (regarding the existence of an employment contract and the number of working hours agreed in that contract); the existence of an employment contract is more easily presumed.</li> <li>A minimum entitlement to three hours' pay for on-call workers each time they are called in to work.</li> <li>Regulation of the risk of non-payment of wages in the event of there being no work for an on-call worker: the period over which employers may claim that they need not pay wages for hours not worked has been reduced to six months.</li> <li>A worker's contract with a TWA is considered a regular employment contract; only in the first 26 weeks are the agency and the agency worker allowed a certain degree of freedom with respect to starting and ending the employment relationship.</li> <li>Special dismissal protection has been introduced for employees engaged in trade union activities.</li> </ul>

Firstly, there is no space for locating deregulation-only measures or purely security

innovations. In particular, the Dutch Law on Flexibility and Security summarized in Table 2 (by the same authors) cannot be inscribed into Table 1. The Dutch Law consists of a number of items, each contributing either to flexibility, *or* to security. The cells of Table 1, on the contrary, combine certain types of flexibility *and* security simultaneously.

Secondly, Table 1 classifies policy measures into flexibility/security types instead of describing the flexibility/security compensation (trade-off). Such a simultaneous classification makes policy measures ambiguous (in favour of flexibility or security?) which, concealing the compensation issues, creates an illusion of a "deliberate" solution. Moreover, debits can be presented as credits following the proverb "Every cloud has a silver lining".

For instance, consider 'Firm-firm job pools' at the intersection of row External numerical flexibility and column Employment security. If it is a flexibility measure to "softly" dismiss workers (it stands in the row External numerical flexibility) then there should be an equivalent social compensation which is missed. If it is a security measure against easy dismissals (it stands in the column Employment security) then it is too weak because it provides poorer career opportunities than retaining the same job. If it is thought to combine flexibility and security then the degree of compensation should be indicated.

Another way of classifying flexibility/security combinations has been used by Sperber (2006) with a reference to ILO (Auer 2005, Auer and Cazas 2002) and OECD (2004). Table 3 classifies countries with respect to two indicators: strictness of employment protection legislation (EPL) and of social protection (UIB —unemployment insurance benefits). Here, each matrix dimension represents *two grades of one indicator* rather than *several types of flexibility or security*. Besides, countries are specified with unemployment rate regarded as an evaluation measure of institutional arrangements (Blanchard 2004, OECD 2004). Other evaluation measures can be GDP growth (Pissarides 2000–2001, Blanchard 2006), job security (Auer and Cazas 2002), or some political criterion.

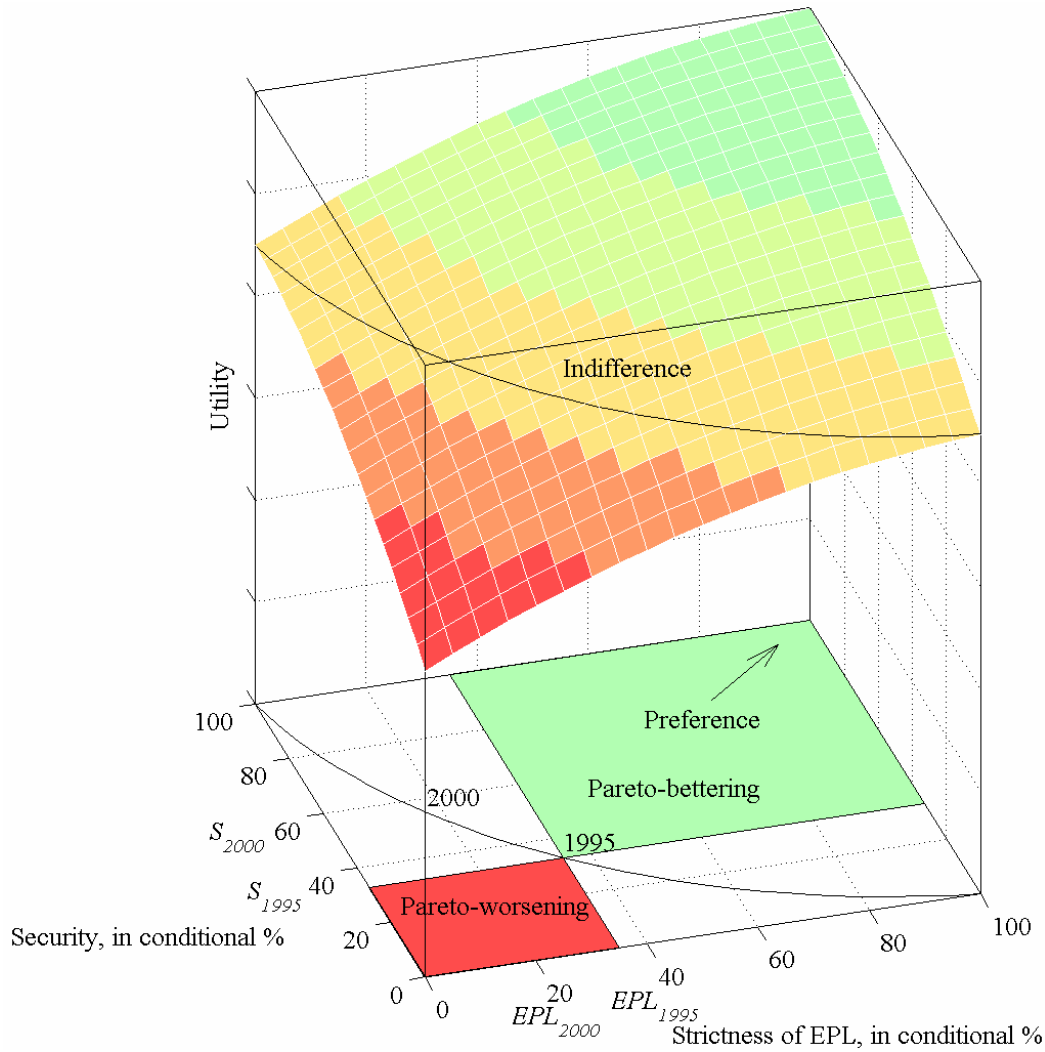
**Table 3. Institutional arrangements and unemployment rate (Sperber 2006 with reference to OECD 2004)**

Strictness of employment protection legislation (EPL)	Social security (UIB — unemployment insurance benefits)	
	Low	High
High	Japan Employment protection 14 Social protection 4 Unemployment rate 4.7%	France Employment protection 21 Social protection 20 Unemployment rate 9.3%
Low	USA (1,3) Employment protection 1 Social protection 3 Unemployment rate 4.0%	Denmark (8,27) Employment protection 8 Social protection 27 Unemployment rate 4.4%

As one can see, Table 3 provides a flexibility/security evaluation but is not appropriate for displaying several flexibility or security types. Table 3 can also be misleading, prompting that the less regulation the better, which is not applicable to all countries.

Thus, Wilthagen's matrix emphasizes the many-sidedness of flexibility and security but does not reflect flexibility/security compensation rates to trace trade-offs. The ILO–OECD matrix is aimed at flexibility/security evaluation but fails to operate on more than one flexibility and one security dimension, and the flexibility/security evaluation can be tendentious.

**Figure 1. A flexicurity policy along a tradeoff ‘Flexibility versus security’**



## Monitoring flexicurity policies in a vector space

To combine advantages of both approaches cited do the following. Transform two dimensions of Table 3 into continuous axes. The resulting two-dimensional plane is shown in Figure 1. The frontal horizontal axis *Strictness of EPL* displays the strictness of employment protection legislation measured in some conditional %. The strictness grows from left to right, implying flexibility at the left hand and rigidity at the right hand:

$$\text{Flexibility} = 100\% - \text{Strictness of EPL} .$$

The second axis *Security* shows the aggregated social security also measured in some conditional %. States of the society are depicted by points (vectors) in the two-dimensional plane *Strictness of EPL–Security*. Each country, being specified with two indicators, can be depicted as a vector in this plane.

If five types of flexibility and four types of security should be considered as in the Wilthagen matrix, then the horizontal axes in Figure 1 split into five flexibility and four security axes, respectively. The horizontal axes in Figure 1 can be regarded as aggregates of several

dimensions.

In the given paper we consider but two main factors of flexicurity, *Strictness of EPL* and *Social (income) security*. Recall that the flexicurity debate originates from claims to relax the EPL which constrains the external numerical flexibility. Consequently, the *Strictness of EPL* can be regarded as an indicator of the *External numerical flexibility* which plays the key role in the debate. The strictness of EPL and generosity of social security benefits are often regarded as main regulators of labour markets (Blanchard and Tirole 2004).

To speak of a trade-off, one has to assume a social preference. A preference is usually represented by a utility function which takes greater values at more preferable points and remains constant at equivalent points joined into *indifference curves* (= trade-offs). The indifference curves are but points of the same height at the utility hill; see Figure 1. The utility function implements the evaluation measure, and remaining at indifference curves means that a decrease in employment protection is "deliberately" compensated by an increase in social security.

For, instance, suppose that a country in 1995 and in 2000 is characterized by vectors  $1995 = (EPL_{1995}, S_{1995})$  and  $2000 = (EPL_{2000}, S_{2000})$ , respectively. If the flexicurity policy is implemented correctly then the vector 2000 lies in the indifference curve through 1995 as in Figure 1. If vector 2000 lied in the red Pareto-worsening domain (more flexibility under no improvement in security) then it would mean that a deregulation-only policy takes place.

Such a representation allows us to introduce an operational definition of flexicurity.

**Definition 2 (operational)** *A "flexicure" country" is the one which vector is located close to the high flexibility–high security edge of the flexibility–security rectangle. Pursuing a flexicurity policy corresponds to a motion of the country's vector in the plane "Strictness of EPL–Social security" along an indifference curve of social utility towards lower strictness of EPL and higher social security ('North-West').*

This definition covers both static and dynamic aspects of flexicurity. The reference to indifference curves introduces the flexibility–security compensation rates. Since a vector space can have an arbitrary number of dimensions, several types of flexibility and security can be considered.

The social utility function can reflect different viewpoints with particular compensation rates (= trade-offs, as understood by the EU, national governments, or trade-unions), emphasize certain aspects of social protection, or it can be a macroeconomic indicator depending on both factors, like unemployment rate or GDP growth (Pissarides 2000–2001, OECD 2004, Blanchard 2004–2006). However, the agreement (!) that flexibility should be compensated by security means that the more employment protection and the more social protection, the better (otherwise no compensation is required). In turn it implies that the Pareto-worsening and Pareto-bettering domains (directions of simultaneous deterioration and simultaneous improvement, respectively) are independent of the shape of utility hill. This property is very important for our future analysis, since we do not know utility functions of European countries.

## Empirical investigation in the neo-liberal perspective

For modeling the neo-liberal viewpoint, we need first of all two empirical indicators of flexibility and security as they are understood by neo-liberals. For the labour market flexibility, use the OECD (1999b, 2004b) indicator "Strictness of employment protection

legislation" (EPL) for evaluating permanent/temporary employment and the easiness of collective dismissals.

The OECD indicator is aimed at reflecting institutional EPL-levels. To trace actual policies we have to reflect factual rather than intentional state of affairs. The employment protection is often conditioned by the employment status, for instance, permanently employed are generally better protected than temporary employed. Therefore, to estimate the national average, we take the weighted EPL-indicator with weights being proportional to the size of corresponding employment groups (yearly data on their size are available from Eurostat 2004). Thus the national indicator varies due to institutional changes (laws) and due to mobility between employment groups; see Tangian (2004a–b, 2005a) for details.

Define the second indicator, "Social security", basing on the OECD (2002b) summary of social security benefits; for the updated regulation see European Commission (2004). The OECD understands social security as a compound of five social security benefits: unemployment insurance, public pensions, paid sick leave, paid maternity leave, and paid holidays<sup>2</sup>. The eligibility to the benefits depends on the country's laws and on the employment status (= adherence to employment groups), differing for different employment groups. For example, normally employed are better secured than atypically employed. If the first group is large and the second is small then the social security of the society is quite high. However, if the first group is small and the second is large then, under the same jurisdiction, the social security level should be considered low. Therefore, the factual rather than institutional social security in a country is the weighted average indicator of social groups with the weights being proportional to their size.

Within the flexicurity debate, Klammer and Tillmann (2001, p. 514) and Hoffmann and Walwei (2000) provide a classification of employment types with respect to four dichotomic indicators: permanent/fixed-term, full-time/part-time, employed/self-employed, and in agriculture/not in agriculture. For self-employed the discrimination between "permanent" and "fixed-term" is not relevant, and from  $2^4=16$  employment groups it remains eight. Thus we obtain 8 employment groups in each of 16 countries, totally 128 groups<sup>3</sup>.

The country's composite indicator of social security is weighted proportionally to the size of employment groups. It also varies due to institutional changes (laws) and due to mobility between employment groups. For details see Tangian (2004a–b and 2005a).

As for the social utility function, it is not necessary to define it explicitly at the moment, because the country trajectories mainly go into the Pareto-worsening domain (deregulation with no social security compensation), which is independent of the shape of social utility function.

Figure 2 displays dynamical trajectories of European countries in the horizontal plane of Figure 1, *Strictness of EPL–Security*. The simplest social utility function  $u = (\text{Strictness of EPL} + \text{Security})/2$  is shown by indifference lines. The social preference increases in the 'North-East' direction, decreases in the 'South-West' direction, and remains constant along the diagonal indifference lines.

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<sup>2</sup> Entitlement to paid holidays is usually not considered within the flexicurity debate. It is not quite logical. Securities are aimed at compensating income losses and exceptional medical and family burdens, including vacations. Therefore, no entitlement to paid holidays discriminates those flexibly employed who work few hours, under short-time contracts, or self-employed, which should be taken into account.

<sup>3</sup> The authors cited consider no labour market outsiders as suggested by Wilthagen and Tros (2004). Respectively, we do not consider them here, also because flexicurity deals with the flexibility of *employment* relations.



The *flexicure* countries with a high flexibility and a high security are located in the top-left corner (Denmark and Finland). The *inflexicure* countries with a low flexibility (= high *Strictness of EPL*) and a high index of *Security* are located in the top-right corner of the chart (Sweden and the Netherlands). The only outlier in the left-bottom corner with high flexibility and low social security indicator is the *flex-insecure* United Kingdom. The bottom-right corner is occupied by *inflex-insecure* countries with a strict employment protection legislation and relatively little advanced social security (Spain, Portugal, and Czech Republic).

The pursuing a flexicurity policy means the direction of a country's trajectory towards the 'North-West'. It is inherent in Denmark in the 1990s and the Netherlands in the late 1990s, when the flexicurity debate was initiated. Since the exact slope of indifference curves is not known, it is unclear whether the flexibility-security compensation was 'deliberate', but at least a flexicurity development cannot be denied.

All directions between 'West' and 'South' correspond to Pareto-worsening for all imaginable social utility functions (no improvement in both factors—no compensation comes in question). Since, with the only short-time exceptions for Denmark and Netherlands, all trajectories are directed towards 'South', 'South-West', or 'West', **the deregulation-only policies are unambiguously prevailing, whereas the much promoted flexicurity is practically invisible.**

## Empirical investigation from the trade-unionist viewpoint

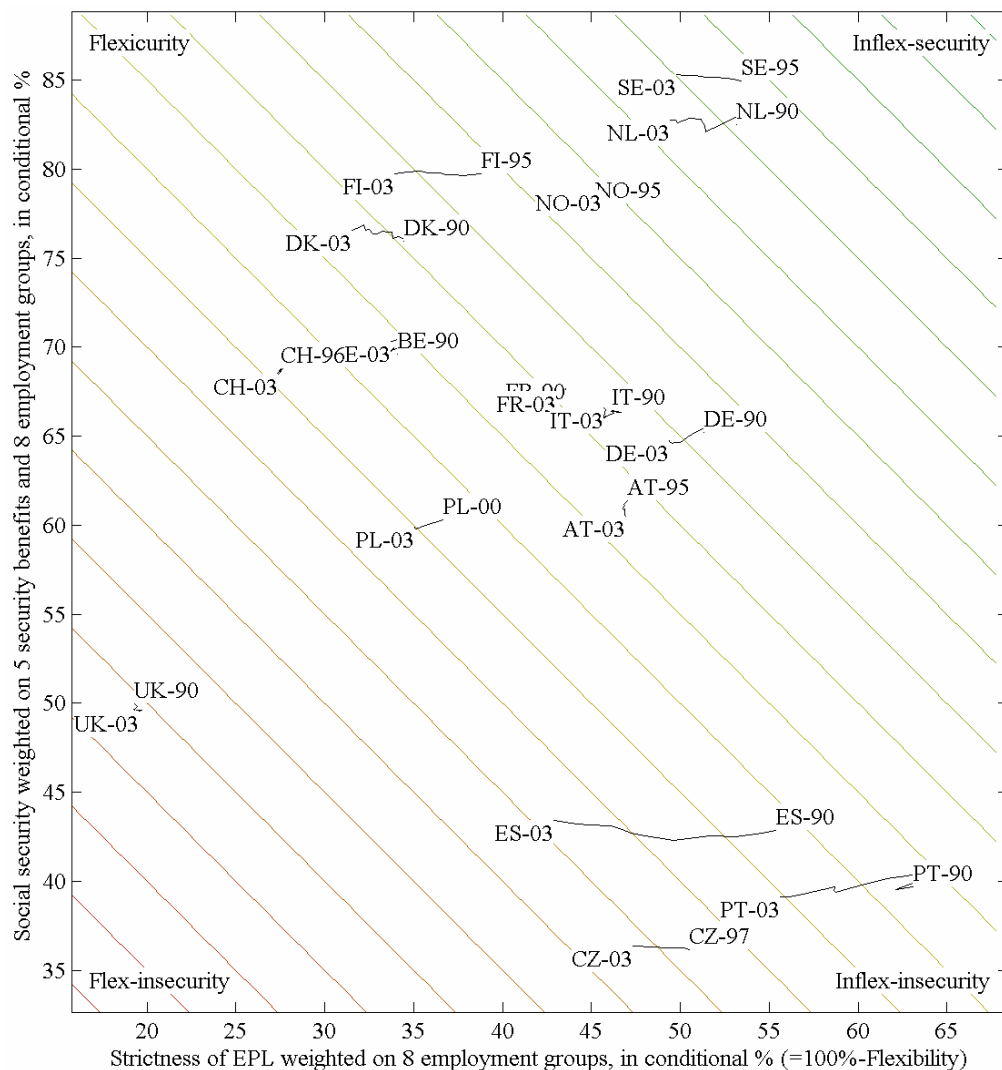
According to the viewpoint so long discussed, the relaxation of the EPL required by employers can be equivalently compensated by better social security benefits to workers. However, from the viewpoint of trade unions, first of all French and German, flexibilization of employment relations can be hardly compensated by social security benefits, and giving up labour rights for social advantages is not appropriate. Even if each particular compromise seems more or less fair, their succession can lead away from the social status quo and the employees can finally get nothing or very little for their pains. It can run as in the known tale about a man who exchanges a horse for a cow, then the cow for a sheep, and so on until he finds himself with nothing but a needle which he loses on the way home.

Trade unions doubt that better social guarantees can adequately compensate a higher *risk* to lose a job. Apply a simple logical argument. Assume that, indeed, an increment in the risk to lose a job can be compensated by an increment in social benefits. After a number of increments ("equivalent" exchanges), the risk grows into certainty, that is, loss of a job, with the living standard remaining intact. It implies a little motivation to work, resulting in a low employment incapable to cover high social expenditures. This contradiction disproves the equivalence of higher unemployment risks and higher social guarantees, so that the emerging disadvantages can be compensated only partially but never completely.

Besides, entrusting the workers' welfare to the welfare-giver, the state, is unreliable. Every political change may result in social cuts (as now in Germany). Employment protection, on the contrary, guarantees jobs and, consequently, a stable income even during recessions and political crises (Bewley 1999). Finally, non-benevolently changing jobs destroys career prospects. Each new employment means that one must begin from the start and establish oneself anew; it can be necessary to move to another place which complicates the family life.

The conception of flexicurity as proposed by neoliberals may look fair: one commodity (labour rights) is exchanged for another commodity (social security), and the exchange rate should be negotiated. The default is however that on the neoliberals' playing field, to which they invite, everything can be bought and sold (which is not always true!). This apparent

**Figure 2. Flexibility-Security trajectories in the background of diagonal flexicurity isolines**



natural prerequisite leaves trade unions with no chance to win. In a sense, it is suggested that workers' social health (= the right to remain at work) be exchanged for a treatment (= social care in the form of advanced social security benefits). In other words, give your working hand and get a prosthesis instead. However: Can a prosthesis, whatever its value, substitute a healthy hand?

From the viewpoint of neo-liberals, flexicurity is a policy to reconcile employees with the actual labour market deregulation. The deregulation is thought to improve the competitiveness of European economy and to enhance the sustainable development. All of these are required to become economically more powerful.

From the trade-unionist viewpoint, the sustainable development is necessary as long as it improves living and working conditions of *employees*. If under "sustainable development" the worker's well-being is not enhanced and a better labour market performance (if any) is attained at the price of stress and lack of confidence in the future then the "sustainable development" can be put in question. Indeed: Do higher industrial productivity and competitiveness constitute the prime human goals? Why sustainable development is put beyond social values? In other words, is it more important to be economically rich rather than

socially healthy?

There are also doubts in the social fairness of flexicurity. Every step towards a higher labour flexibility meets interests of employers. Business gets rid of restrictions, managers improve performance by rotating and squeezing personnel, and firms gain higher profits. All expenses are recovered by the state — costly reforms and additional social security benefits. Therefore, such a flexibilization scenario turns out to be a long-running indirect governmental donation to firms. Since the state budget originates from taxpayers, the employees are the ones contributing to the donation.

Therefore, trade unions are inclined to consider flexicurity as a measure to protect weak work forces but not at the price of charging other employees with disadvantages. The specificity of the trade-unionist viewpoint at flexicurity is reflected by the alternative definition below. It is just the one criticized by Wilthagen and Tros (2004, p. 170):

**Definition 3 (trade-unionist).** *[Flexicurity is] social protection for flexible work forces, understood as "an alternative to pure flexibilization" (Keller and Seifert 2004, p. 226), and "to a deregulation-only policy" (Klammer 2004, p. 283); see also WSI (2000).*

Thus, the preference of trade unions is determined primarily by the strictness of EPL, and the second factor, security, is considered *ceteris paribus*, if only the first factor remains invariable; see Figure 3. The preference can be imagined as a staircase with floors being the EPL strictness levels and each flight of stairs being the full-range ascent along the social security scale. This type of preference is called *lexicographic* by analogy with a lexicon which words are ordered alphabetically letter-by-letter (here, by the strictness of EPL and then by the security level). The lexicographic preference has no indifference curves which degenerate into single points (Tangian 1991, p. 49–50). It means that a shortage of a high-priority factor cannot be compensated by any surplus of lower-priority factors.

According to the trade-unionist concept of flexicurity, the focus should be made at improving the employment and social security of flexible workers. Figure 4 shows what happens at the market of flexible labour forces, separately of the market of regular employment.

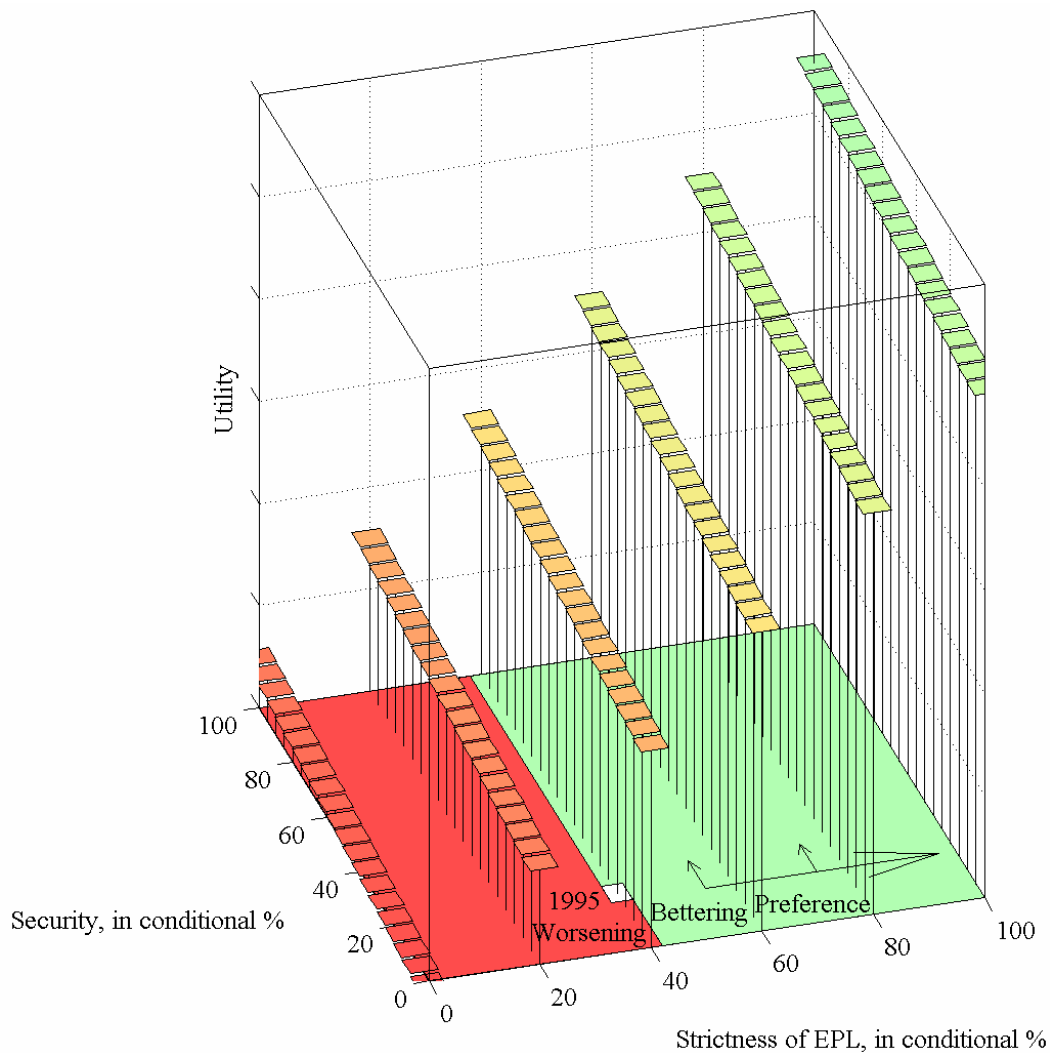
The vertical indifference isolines relate to the first-priority component (EPL) in the trade-unionist lexicographic preference, showing that up-downward changes of security are not important. Any deviation of policy trajectory to the left is unfavorable for trade unions, and an upward increment is appreciated if only the horizontal increment is negligible.

In many cases this increase is not due to a better employment and social protection of flexibly employed. To a great extent it is due to the increasing share of permanently part-time employed. More young people and women sign part-time contracts, thereby reducing the share of normal employment (Austria, France, Belgium, Poland). Another factor is the decreasing share of self-employed since they close their business and become employees (France, Austria, Belgium). Thereby the share of better employment/socially protected within flexibly employed increases and their average employment and social security status grows.

The greatest depression in social utility due to a decrease in the *Strictness of EPL* (we speak exclusively of flexibly employed!) is inherent in Sweden (from 42.8 to 31.6%), Denmark (from 31.0 to 21.9%), Germany (from 43.1 to 36.9%), Czech Republic (from 15.6 to 11.7%), the Netherlands (from 42.9 to 40.5%), and Portugal (from 25.4 to 24.9%).

The depression is also caused by transitions between employment categories rather than by institutional changes. In Sweden the share of best-protected permanently part-time employed decreased from 18.3 to 14.1%, and in Denmark from 19.5 to 17.3%. In Czech Republic the share of well-protected permanent part-timers decreased not much (from 3.1 to 2.3%) but the

**Figure 3. Lexicographic preference of trade unions with no trade-offs to follow**

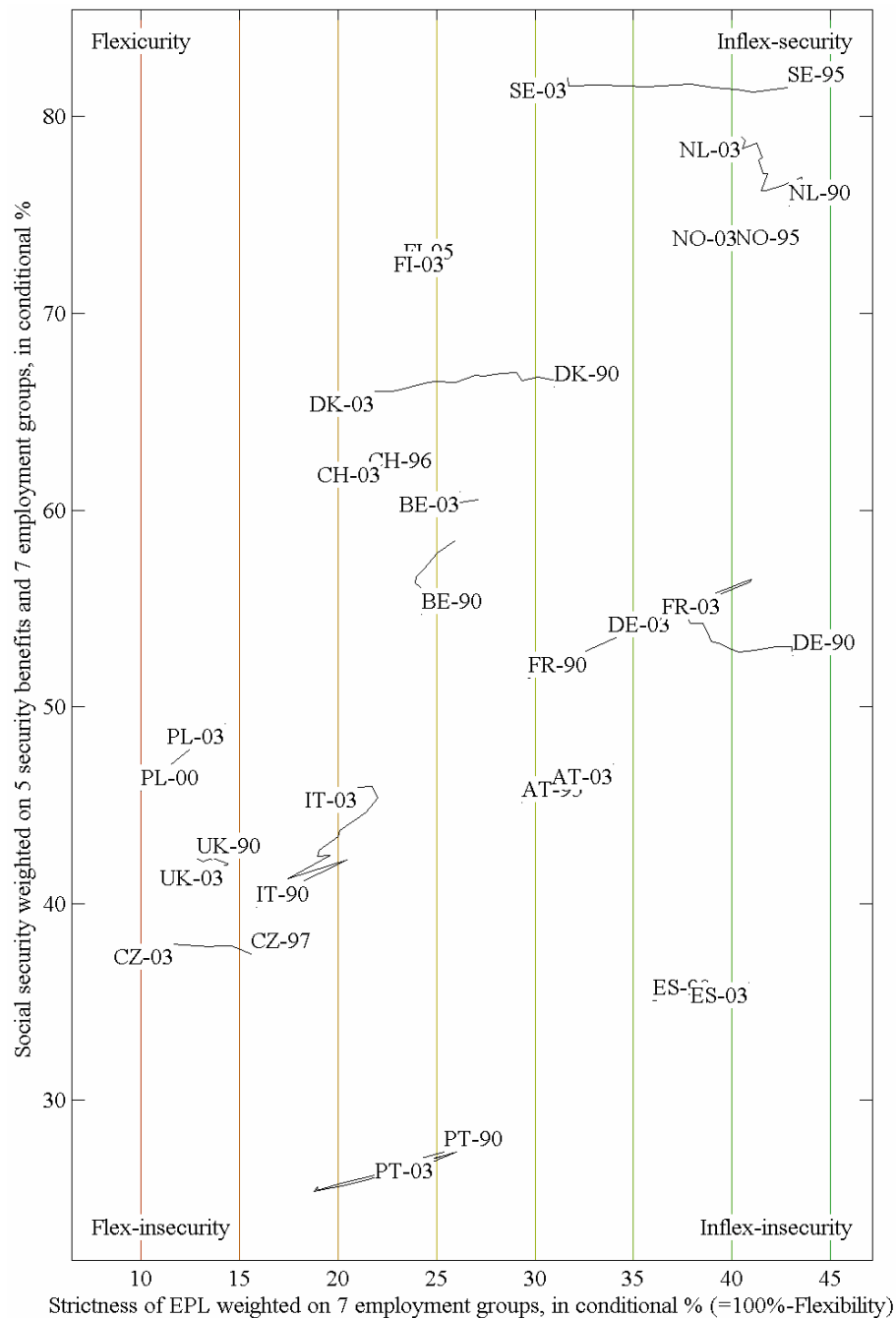


share of self-employed, who are not protected by labour laws, increased (from 10.7 to 15.3%). Some positive changes in the indices for flexibly employed should not be misinterpreted. Most of them are caused by transitions from the group of normally employed. It is not necessary to emphasize that a growth in indices of flexibly employed due to transitions from regular employment does not make trade unions very happy.

The key problem is that social preferences of neo-liberals and trade unions more than just differ, they differ in the *type* of preference. The former have a hill-shaped utility with gradual ascents/descents in every direction. Trade-unions have a stair-like utility with gradual ascents/descents only along the 'flight of stairs' but with leaps in all other directions. The subject for bargaining—determining the slope of social trade-off—is questionable for trade unions whose preference has no indifference curves which might have a slope.

As mentioned by Wilthagen and Tros, (2004, p. 169): "some recent studies are pessimistic that appropriate trade-offs can be found between flexibility and security". The problem is in the very existence of trade-offs: "If these levels ... do not exist, negotiations and trade-offs are hard to envisage, because there is 'no more/or less' situation'" (Op. cit, p.181).

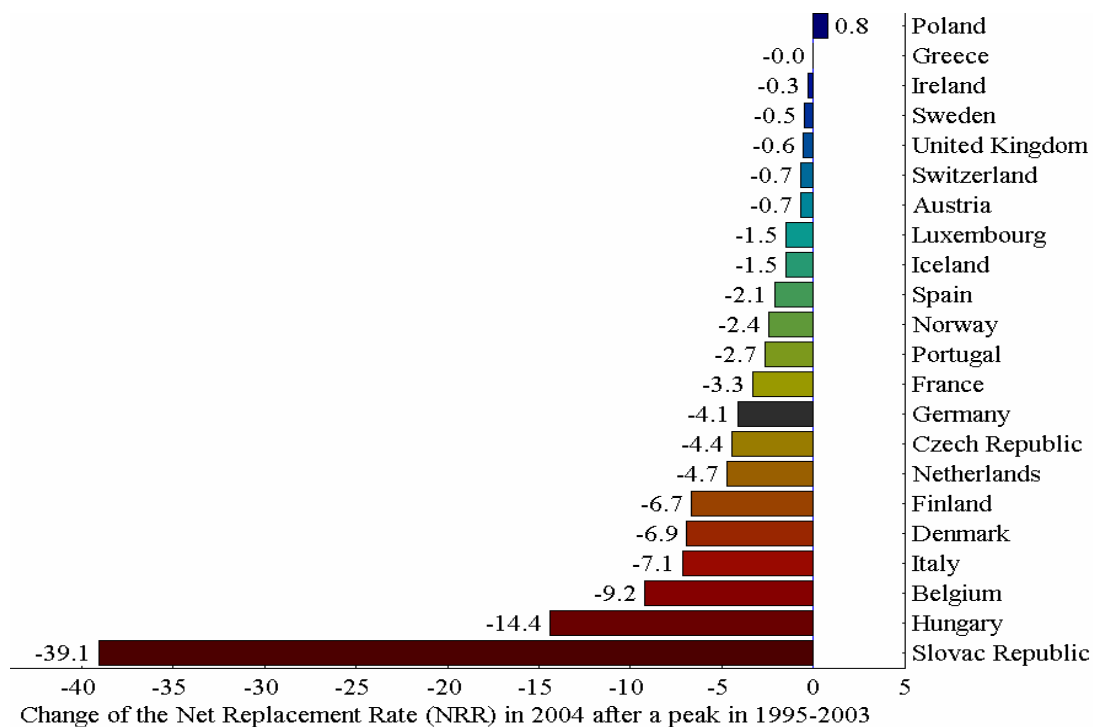
**Figure 4. Flexibility-Security nexus for flexibly employed only (trade-unionist perspective) in the background of trade unions' vertical flexicurity isolines of first priority**



## Empirical investigation within the conception of European welfare state

The definition of flexicurity as a trade-off assumes a compensation of flexibilization by advantages in social security. From the viewpoint of European welfare state, the key stone of social security is income security aimed at compensating the loss of earnings and providing means of existence for those who do not work. Therefore, we have to evaluate the progress in income security and to judge, whether it compensates the actual deregulation of labour

**Figure 5. Decline of European social security by 2004 after the highest peak in 1995–2003 shown by reduction of national Net Replacement Rates (NRR). Source: Author's Census-Simulating Model with the EuroStat Labour Force Survey data and OECD Tax-Benefit Models**



markets, as measured with the EPL-indicator of the OECD used in previous sections.

An evaluation of income security could be based on interviewing unemployed on their in- and out-of-work net income. However, even if such an interview could be performed, it is unlikely that unemployed provided accurate figures because of complicated tax and benefit interactions. Besides, a number of persons may refuse to answer questions on their income.

A possible solution is obtained with a (micro-) census simulating model which combines both empirical and institutional (= rule-based) and empirical (= statistical) features. It uses the OECD Tax-Benefit models (1998, 1999a, 2002a, 2004a, 2005) to normatively derive individual answers of unemployed from their personal situations (age, family type, number of children, previous earnings, duration of unemployment). The goal is obtaining the net-income replacement rates (NRR) for unemployed persons, which is the previous-to-current net income ratio. The statistics of personal cases is available from Eurostat (2005). It is used to derive the national average NRR which shows the average degree with which social benefits compensate the loss of previous earnings; for details see (Tangian 2005b).

The analysis of national NRR-indicators for 22 European countries reveals that they attain some maximum during the period 1995–2003 and decrease by 2004, meaning “the good times are over”. This viewpoint is illustrated in Figure 5, showing the change of the national NRR by 2004 with respect to its maximum in some previous year. The bottom countries have the largest social security decline. The higher the country in the graph, the less the security decline.

The only exception is Poland which exhibits a minor progress. However, the growth of Polish indicator by 0.8% occurs in the background of devaluation of the APW by 24% (Average production wage — used by the OECD and Eurostat as a reference of the national wage level). Without such devaluation, the Polish social system would decline by about 23%, so

that the real position of Poland in Figure 5 should be at the bottom next to Slovak Republic.

What are the causes of the decline of European social security?

In many countries the actual decline of social security occurs under institutional improvements: “Contrary to the decline in benefit amounts seen in earlier period, payment rates were made more generous in several countries” (OECD 2004a, p. 116). Some countries considerably increased their benefits and some relaxed eligibility conditions. Indeed, as reported by Adema and Ladaïque (2005, p. 12) the social expenditure in the OECD countries grows with the GDP and in certain years even more rapidly.

For instance, the dynamic of German institutional development is shown in Figure 6. Its six plots correspond to six levels of previous earnings: 40, 50, 67, 100, 150, and 200% APW. Each plot is built from seven yearly curves. All the plots are computed with the OECD Tax-Benefit Models with no statistical data. The abrupt increase in the plot relief in 2001 indicates that social security benefits became more generous for all the six earning levels. At the same time Germany exhibits a decline of social security by 4.1% in Figure 5. A similar situation is inherent in many other countries; see similar plots for other European countries in (Tangian 2005b).

Since no institutional decline is generally observed, the only its cause is a change in personal situations. Recall that the personal situations are specified with family type (single, married couple with one earner, married couple with two earners, number of children), age, and employment parameters like previous earnings and duration of unemployment. According to Eurostat (2005), the dynamics of family types is not much changing in the recent years. The earnings do, but together with the GDP and social expenditure (Eurostat 2005).

The only explanations of the decline of European social security are longer periods of unemployment and shorter periods of employment which disqualify employees from high social benefits. These phenomena follow from the flexibilization of employment relations. Therefore, the **flexibilization results not only in employment insecurity but also in social insecurity**, reducing the NRR due to shorter employment periods.

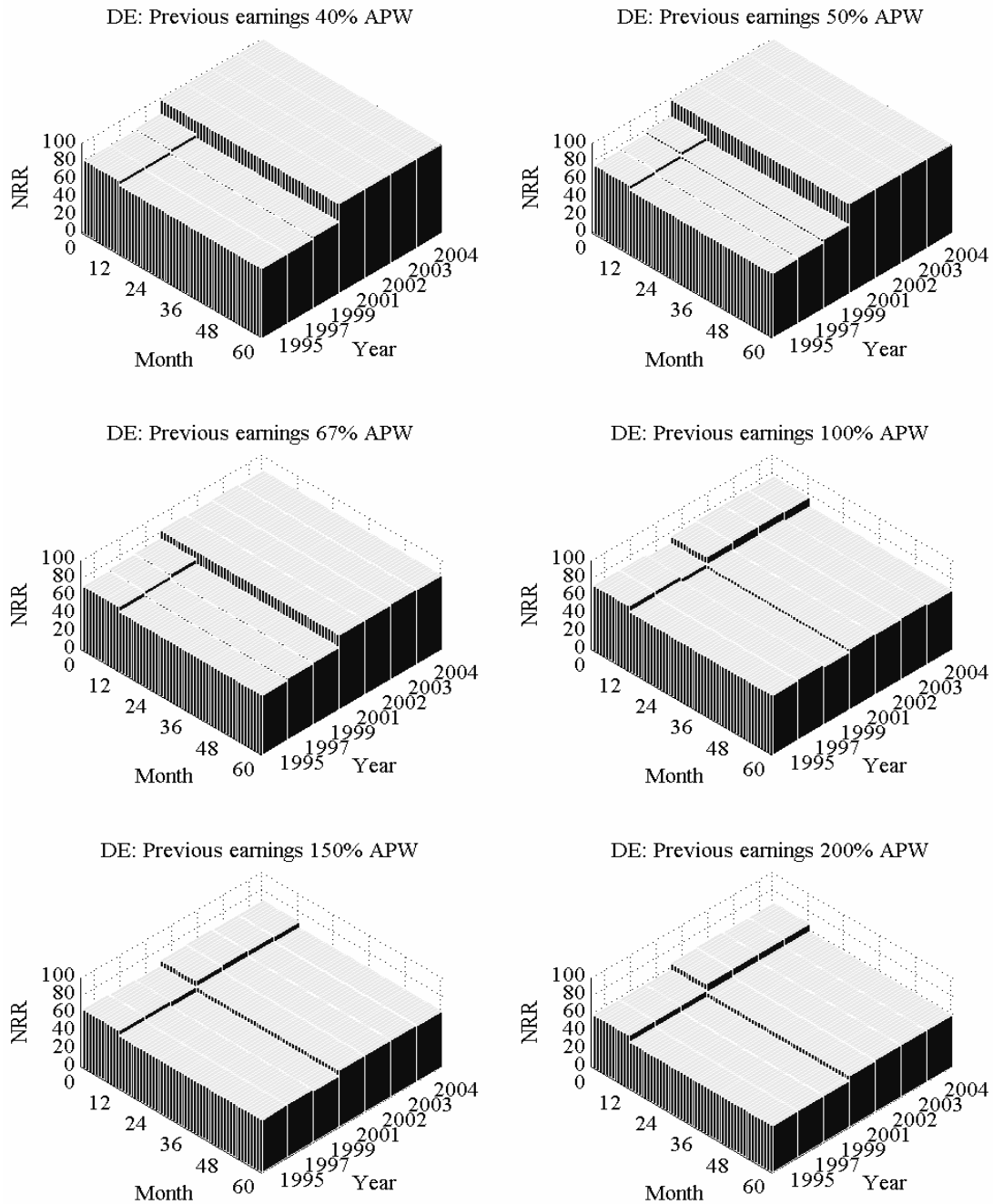
In this relation, what can be said about flexicurity? As shown with the OECD indicator of strictness of EPL, the labour market deregulation is distinctly progressing. From the viewpoint of European welfarism, social security experiences a decline. Therefore, it cannot compensate the flexibilization as required by flexicurity.

## Discussion: policy contradictions and possible solutions

At the moment there are several European policies which are inconsistent with each other:

- **European welfare policy** which suggests certain living standards independently of employment. It assumes a stable labour market performance and is backed up by a strong social security system (Esping-Andersen 1990, Ramaux 2006).
- **Flexibilization of employment relations** (3<sup>rd</sup> guideline for European Employment Strategy; see European Commission 2005) which implies relaxations of employment protection legislation.
- **Flexicurity** (European Commission 2006) The compatibility with the European welfare tradition is imagined as a *flexicurity* trade-off between the relaxation of employment protection legislation and advances in social and employment security (Jepsen and Klammer 2004).

**Figure 6. Normative Net Replacement Rate (NRR) during 1–60 months of unemployment for one of 75 family situations (one-earner couple with 2 children, 40 year-old earner, 22 years working record) in Germany. Source: Author's derivation from OECD Tax-Benefit models**



- **Make work pay** (8<sup>th</sup> guideline for European Employment strategy, European Commission 2005) aimed at stimulating the unemployed to active labour market participation. Similarly to flexicurity, the “make work pay” policy is also a trade-off, but between the social protection and maximizing the gain from moving to work (OECD 2004, p. 92). Contrary to flexicurity, the “make work pay” allows a reduction of security benefits.

As follows from the very idea of trade-offs (compensation, that is, no possibility of



simultaneous improvements), the policies enumerated contradict each other. Since they interact through the social security system, their consistency means the consistency with the social security. Or, the social security should be made consistent with the three policies.

The social security system has been developed for many decades. It is overcomplicated especially in interaction with the tax system, and it is quite difficult to change one of its elements without affecting others. The unprecedented decline of European social security in the background of institutional improvements shows that only a radical reform can make it actually efficient and resolve policy contradictions.

A possible solution could be the *basic minimum income model* together with *flexinsurance*.

The basic minimum income model assumes a flat income paid by the state to all citizens regardless of their earnings and property status (Keller and Seifert 2005, p. 320). The traces of this model appear in some social security branches like child care allowances. For instance, *Kindergeld* in Germany is paid to all parents. Some other options are practiced in Switzerland (Brombacher-Steiner 2000).

The flexinsurance assumes that the employer's contribution to social security should be proportional to the flexibility of the contract (Tangian 2004b). Thereby a higher risk of atypical employees to become unemployed will be compensated. On the other hand, such progressive contributions will stimulate employers to hire employees more favorably, but without rigidly restricting the labour market flexibility. Thereby flexinsurance can be an instrument for "regulating the labour market deregulation" which ongoing adjustments do not need legislation changes.

The basic minimum income model in combination with the flexinsurance is consistent with the European policies mentioned and thereby resolves their contradiction:

**Development of the European welfare policy.** The basic minimum income model meets the concept of welfare state since it guarantees some unconditional living standards and discharges the social tension. The additional budget expenditures come from flexinsurance and higher taxes of high-earners (to subtract the flat income) and by the funds released from reducing the number of civil servants currently working in social security.

**Compensation of flexibilization by better social security according to the flexicurity concept.** The basic minimum income model would mean a progress in social security and therefore meets the idea of the flexicurity trade-off "more flexibilization and more security". At the same time, flexinsurance will –"softly" regulate flexibilization,.

**Contribution to the "make work pay" policy.** The basic minimum income is not reduced while moving to work. Therefore, there can be no situations when moving to work is little attractive due to losing out-of-work benefits, since every work immediately improves the net income.

Finally, the **European policy of respecting civil society initiatives** should be mentioned. It assumes a significant influence of non-governmental organizations on policy-making. In particularly, the opinion of trade unions played always not the least role in labour market regulation. Constraining the total deregulation of labour markets with flexinsurance would mean respecting the trade-unionist position.

## Conclusions

In spite of a visible roll-back of European social security from the level of the 1980s (Ramaux 2006), most empirical studies fail to detect its substantial decline (Pettersen 1995, Taylor-Gooby 1998, Roller 1999, Van Oorschot 1999, and Mau 2001). The focus made on governmental expenditures for social support (for references see Adema and Ladaique 2005)

is rather misleading because it does not take into account increasing living costs and flexibilization of employment relations with longer periods of unemployment and lower specific payoffs per capita/months. The illusion that social solidarity remains in force weakens the position of European welfarism and trade unions, making an impression that minor improvements are sufficient to adjust social security to current needs.

Thus we have operationally defined flexicurity policies as flexibility-security directed country trajectories along trade-offs in the flexibility–security vector space. Flexibility is estimated with the OECD indicator of strictness of employment protection legislation. Security is estimated in three ways, depending on the viewpoint. In the neo-liberal perspective, the social security indicator is derived from eligibility conditions to five social security benefits as given by the OECD. Under the trade-unionist viewpoint, the consideration is restricted to atypically employed. Within the conception of European welfare state, the social security indicator focuses on net income replacement rates of unemployed.

Unlike existing studies, the given article attempts to measure the level of social security with respect to the factual rather than institutional changes. In particular, all three models considered reduce the indicators to some national average values and show that institutional improvements do not compensate the growing size of disadvantageous social groups. A kind of debit-credit account shows that wins are smaller than losses and winners are fewer than losers. For instance, minor advantages for flexibly employed turn into great disadvantages for regularly employed. It results in a negative general balance, so that the concept of flexicurity may not be holding up to its political promises and theoretical declarations.

A possible solution can be attained by *flexinsurance* — easily updatable regulation of labour market in the form of insurance of flexible labour — and basic minimum income model. Besides their contribution to flexicurity implementation, they could solve some contradictions between actual European policies and between employers and trade unions.

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