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## Transitional labour markets and flexicurity from the Finnish labour market point of view

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## **Transitional Labour Markets and Flexicurity from the Finnish Labour Market Point of View**

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## **Abstract**

This article presents a conceptual approach related to the European flexicurity discussion, the Transitional Labour Market theory and its main assumptions. Our aim is to bring this analytic framework into the discussion and to clarify some central aspects by introducing empirical findings concerning the case of Finland. The transitional labour market theory is a useful approach to analyse the combinations of flexibility and security, as it is not only a national model concerning one country, but a comprehensive conceptual system emphasising labour market transitions during the lifecycle. The particularities of the Finnish labour market dynamics suggest that one must be aware of a “dual transitional labour market” and, accordingly, that one should differentiate between labour market policies.

## **Zusammenfassung**

Dieser Beitrag liefert einen konzeptionellen Ansatz für die europäische Flexicurity Debatte – die Theorie der Übergangsarbeitsmärkte und ihre wesentlichen Annahmen. Unser Ziel ist, diesen analytischen Bezugsrahmen zur Diskussion zu stellen und einige zentrale Aspekte zu klären, indem empirische Befunde für den Fall von Finnland dargestellt werden. Die Theorie der Übergangsarbeitsmärkte erweist sich als ein hilfreicher Ansatz, um Kombinationen von Flexibilität und Sicherheit zu analysieren, da sie nicht als Repräsentation eines einzelnen nationalen Modells angelegt ist, sondern als umfassendes System von Arbeitsmarktübergängen im Lebensverlauf. Die Besonderheiten der finnischen Arbeitsmarktdynamik legen nahe, von einem „dualen Übergangsarbeitsmarkt“ zu sprechen und die arbeitsmarktpolitischen Maßnahmen entsprechend zu differenzieren.



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## 1. Does a European Flexicurity Consensus Emerge?

When the idea of balancing flexibility and security was introduced by the first Kok Report (Kok 2004) into the employment policy debate at the end of 2003, “flexicurity” was still considered as an oxymoron, which means something that is a contradiction in itself.<sup>1</sup> Only a few years later, in its 2006 Employment Report, the European Commission appealed to the strategy of flexicurity in the following way:

"A consensus is [...] emerging [...] that countries should adopt institutional configurations in the labour market that better combine the requirements of flexibility and security – in other words 'flexicurity'. This implies that, in an environment where workers experience more frequent transitions between employment and non-employment, and between different kinds of employment, policies need to put in place the right conditions for individuals to successfully manage these transitions, thereby ensuring sustainable integration and progress of individuals in the labour market" (European Commission 2006, p. 111).

Related to the “right conditions”, the Commission submitted a Green Paper in November 2006, asking member states and social partners to take a position on 14 questions on modernising labour law. This process was supported by a Task Force on flexicurity which delivered its report in 2007. On the basis of this report, the Commission announced four components of flexicurity in July 2007: (1) flexible and reliable contractual arrangements, (2) comprehensive lifelong learning strategies, (3) effective active labour market policies, and (4) sustainable social protection systems. After a lengthy debate, the European Council eventually decided on eight common principles of flexicurity in December 2007 (European Commission 2007).

These principles already contain a good deal of compromise between the various schools of flexicurity (Auer 2007), and within these principles one can easily detect some key elements of the transitional labour market concept. In brief, the eight principles emphasise (1) good work through new forms of flexibility and security; (2) a deliberate combination of the four flexicurity components; (3) a tailored approach according to the member states' specific circumstances; (4) overcoming segmentation through stepping stones and through managing transitions both in work and between jobs; (5) internal as well as external flexicurity; (6) gender equality in the broader sense of reconciling work, family and private life; (7) the crucial importance of the social dialogue in implementing flexicurity, which means – in transitional labour market terms – negotiated

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<sup>1</sup> As many other social inventions, the term – of course – has been invented by the Dutch; see for its history Wilthagen (1998).

flexibility and security; and, finally, (8) fair distribution of costs and benefits, which means – in the wording of social risk management – the fair sharing of risks in critical transitions over the lifecycle.

However, the ongoing debate shows that the concept of flexicurity is far from unitary. Despite a common rhetoric, country-specific connotations exist, and there is the danger that the concept becomes instrumental for various and even contradicting political interests.<sup>2</sup> The concept of transitional labour markets (from now on TLMs) aims at providing a consistent framework to give flexicurity a clear direction. The first step of such a framework is to clarify the meaning of flexicurity from an analytical point of view.

## **2. Ways in which to ‘Marry’ Flexibility and Security**

The confusion stems especially from the complexity of the interrelationship between flexibility and security. At least four elements for each dimension can be distinguished: external or internal numerical flexibility and internal or external functional flexibility on the one hand, and job security, employment security, income security and option security on the other hand.<sup>3</sup> The link between these eight dimensions is more complicated than is usually considered (Figure 1).

The flexibility-security nexus is not always a trade-off. The employer’s flexibility gain does not necessarily mean a loss of security for employees; and the employee’s security gain does not necessarily mean a loss of flexibility for employers. Employers also have an interest in security, for instance in the loyalty and reliability of workers. Employees, vice versa, also have an interest in flexibility, for instance in working-time flexibility to combine family, life and work, or in job changes to gain new experiences, to extend social networks and to indulge changing preferences.

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<sup>2</sup> See the unsurpassed and lucid epistemological reflections by Barbier (2007, 2008).

<sup>3</sup> For a slightly different categorization see Wilthagen and Tros (2004).



**Figure 1: The flexibility-security nexus**

Flexibility	Security			
	Job security	Employment security	Income security	Option security
External numerical	to	to / vt / vs	to / vt / vs	to
Internal numerical	vt	vt	(to) / vt	to / vt
Internal functional	vt	vt	to / vt	(to) / vt
External functional	vt	to / vt / vs	to / vt	to / vt

to = trade-off; vt = virtuous circle; vs = vicious circle

Take, for instance, the first column of the flexicurity matrix, the nexus between job security and various forms of flexibility. There is clearly a trade-off between job security and external numerical flexibility: the more freedom employers have to hire and fire, the lower the job security is for individual employees and vice versa. If, however, employees trade in internal flexibility (for example, accepting working time variability and wage flexibility) against job security, flexibility and security may turn into a virtuous circle.

Job security can also induce employees to be loyal to the employer, to invest in firm-specific human capital, to co-operate, and to pass over tacit knowledge to other employees because they do not have to fear internal competition. All this increases internal functional flexibility. An example of external functional flexibility would be the opportunity of employers to use high-quality job services provided by temp-agency work. The reason is that temp-agencies can pool the risk of fluctuating demand for such services and thereby provide security for the internal workforce of individual employers as well as job security for skilled workers in their own organisation. In other words, the flexicurity labour market will increasingly be characterized by hybrid employment relationships combining the advantages of internal and external labour markets.

Regarding the link between external numerical flexibility and employment security, hire and fire does not necessarily affect employment security. If the labour market provides plenty of job opportunities, for instance through high job turnover combined with effective demand management, then flexibility and employment security can go hand in hand.

The nexus, however, can also be deadly vicious. Apart from rising fluctuation costs, hire and fire policies can lead to an overall feeling of employment insecurity. This feeling may lead, in turn, to exaggerated savings of employees, thereby lowering consumption and effective demand on the one hand, and on the other hand – as the case of East Germany has drastically shown – employment insecurity also leads to postponing family planning, thereby lowering the birth rate. In addition, employment insecurity also reduces the investment in human capital, thereby leading to a decline in highly skilled labour supply and eventually ending in a vicious circle of flexibility and security.

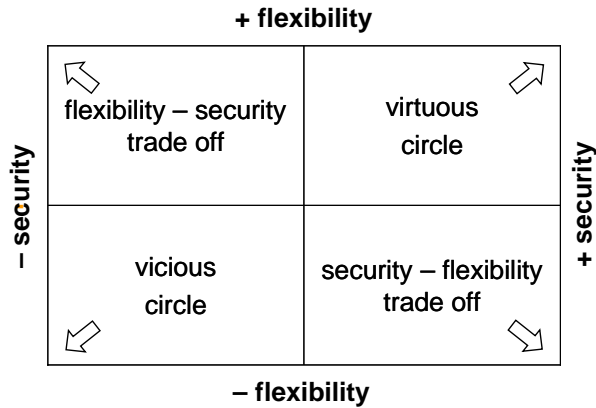
These examples point out that the flexibility-security nexus should not be considered as a menu à la carte (Gazier 2007). Whether relationships between the different types of flexibility and security turn out to be trade-offs, virtuous or vicious circles depend on the coherent design of labour market policy, especially the complementarity of institutions at the micro-, meso- and macro-level (Hall and Soskice, 2001). The Danish “Golden Triangle”, for instance, compensates the high risk of job insecurity with generous income security, and active labour market policies greatly contribute to employment security.<sup>4</sup> Sweden is a good case of balancing option security and functional flexibility. Universal public child-care provisions and generous parental leave schemes there enhance employment options for men and women, whereas comprehensive education and training opportunities at all ages ensure adaptability to labour market changes.

Figure 2 shows flexibility as the vertical axis and security as the horizontal axis in a continuum from the negative to the positive. This makes four possible combinatory relationships: two kinds of trade-offs, one in which the increase in flexibility goes at the expense of security, and one in which greater security goes at the expense of flexibility. And there are two complementarities: a virtuous circle, in which flexibility and security re-enforce each other in a positive direction, and a vicious circle, in which flexibility and security re-enforce each other in a negative direction.

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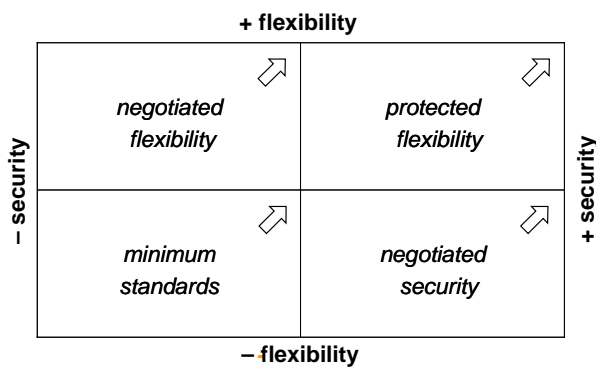
<sup>4</sup> The best references for the Danish model are Bredgaard/Larsson (2005) and Madsen (2006).

**Figure 2: Combinations of flexibility and security**



As in real marriages, most people probably like to have the best of all worlds, the virtuous circle. However, as was shown at the beginning, conflicts or trade-offs turn up as well and vicious circles loom large in real life. Each country will have to find its own ideal balance between flexibility and security. At the European level, one can only formulate some general guidelines. These guidelines can be divided into four strategies: protected flexibility (1), negotiated flexibility (2), negotiated security (3) and minimum standards (4), and all four strategies can be differentiated according to the level of policies – whether they work at the micro, meso or macro level of political activities (Figure 3).

**Figure 3: Strategies for managing the balance between flexibility and security**



(1) Regarding the first priority, protected flexibility would be the proper way in which to foster a virtuous circle between flexibility and security. In general, this strategy compensates risk-taking by additional securities or monetary incentives.

(2) Second, the proper strategy to turn the flexibility-security trade-off into a win-win situation would be ‘negotiated flexibility’.

(3) Third, the proper strategy to turn the trade-off between increasing security and decreasing flexibility into a win-win situation is ‘negotiated security’.

(4) Fourth, the proper strategy to overcome vicious circles would be ‘minimum standard regulation’ at the national or European level.<sup>5</sup>

To sum up, whether relationships between the different types of flexibility and security turn out to be trade-offs, virtuous circles or vicious circles depends on the coherent design of labour market policy, especially the complementarity of institutions at the micro, meso and macro levels. The Danish ‘Golden Triangle’, for instance, compensates the high risk of job insecurity with generous income security, and active labour market policies greatly contribute to employment security. Sweden is a good case of balancing option security and functional flexibility. Universal public child-care provisions and generous parental leave schemes in Sweden enhance employment options for men and women, whereas comprehensive education and training opportunities at all ages ensure adaptability to labour market changes.

The most important point of this exercise, however, is that the complexity of the flexibility-security nexus allows countries to choose different combinatory regimes (Klammer 2007). This conclusion has been confirmed by many other successful EU member states since the existence of the Lisbon strategy. However, the concept of TLM claims that a “deliberate combination” of the four flexicurity components – flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, and modern social protection systems – means to follow consistent normative and analytical principles. The next section deliberates on the normative principles.

### **3. The Theory of Transitional Labour Markets**

As a normative concept, TLMs envisage a new stage of active labour market policy which focuses on social risks over the lifecourse. The core idea is to empower individuals to take over more risks over the lifecourse,

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<sup>5</sup> For an exemplification of these strategies see Schmid (2008, pp. 317-322).

not only through making work pay but also through making transitions pay. Four principles underlie this theory.

The first principle is justice understood as fairness. Concerning the goals of policy intervention, the concept of TLMs is opposed to the utilitarian assumption of maximising happiness for all. TLMs, rather, emphasise the difference principle by John Rawls (2001) according to which inequality is only justified if it improves the lot of the least advantaged. We have to change Tolstoy's famous statement in his novel *Anna Karenina*: Each unhappy family is unhappy in its own way. There are many ways to happiness, but pain is always the same. Reducing unhappiness, especially that caused by long-term unemployment, is something that we can achieve. Maximizing happiness is a moving and often futile target, as the booming happiness research shows (Layard 2005, Offer 2006).

The second principle is solidarity in risk-sharing. TLMs follow the ethic of responsibility by Ronald Dworkin (2000). Rights and obligations have to be balanced. Demanding more individual responsibility requires endowing all individuals with equal opportunities. It also requires the periodic redistribution of resources over the lifecourse, since market forces regularly distort distributive justice.

The third principle is developing individual agency. TLMs assume great differences in the ability to utilise resources for a fulfilling personal lifecourse (Sen 2001, Salais and Villeneuve 2004). Labour market policy, therefore, has to concentrate on capabilities, which include individualised endowments of resources as well as a supportive social and political infrastructure.

The fourth principle is transnational social cohesion. TLMs assume an increasing interdependency of national states through globalisation and internationalisation. The Europeanization of labour markets in particular requires a spatial expansion of the principle of social inclusion, in other words, an expansion of risk-sharing communities beyond ethnic, regional and national boundaries (Ferrera 2005).

As an analytical concept, TLMs emphasize the dynamics of labour markets. They focus on flows between different employment relationships rather than on stocks, and they focus on transitions over the lifecourse rather than on one way job-to-job changes. They distinguish especially between integrative, maintenance and exclusionary transition sequences or

job careers. They have stimulated a rich set of empirical research on lifecycle mobility which cannot be presented here.<sup>6</sup>

TLMs, however, also emphasise transitions within employment relationships. The often quoted fact that international research finds no remarkable downward trend in job tenure and no remarkable increase in job-to-job transitions is completely in line with the concept of TLMs (Auer and Cazes 2003). The reason is that many transitions can be performed within stable employment relationships, for instance the shift from full-time to part-time work due to parental leave, or the combination of part-time work with off-the-job training, or internal job rotation.

Such flexibility within a continuing employment relationship explains, for instance, the fact that the nominal employment rate in Sweden is about 74 per cent, whereas the effective employment rate – which means the rate of employed people who actually work in a week – amounts to around 64 per cent. This observation might even be turned into a normative statement: The more transitions there are within an employment relationship that are allowed or demanded, the higher the employment rate must be to keep the ‘machinery’ of economic prosperity running. The Lisbon objective of a 70 per cent employment rate, therefore, might be even too modest in the long run.

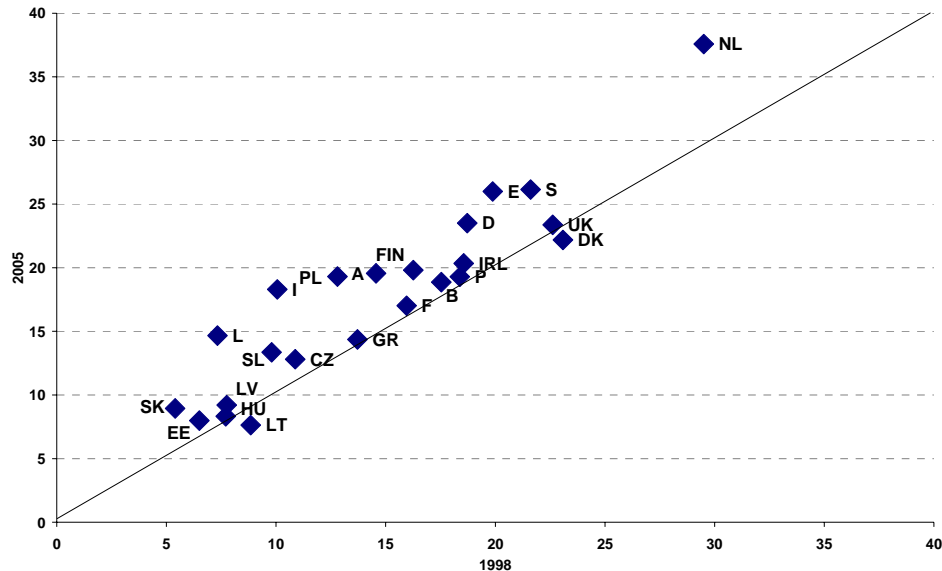
The main challenge, however, is the imbalance between integrative, maintenance and exclusionary transitions. In fact, the current dynamics of transitions tends to lead to new forms of labour market segmentation. Many people get stuck in exclusionary transitions, especially in low skilled jobs or in precarious non-standard employment relationships.

The figures on non-standard employment rates in the EU member states give only an impression of this challenge (Figure 4). Non-standard employment here comprises all jobs in part-time work, temporary work or self-employment. The comparison of the EU member states reveals three messages:

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<sup>6</sup> See, among others, O’Reilly et al. (2000), Schömann/O’Connell (2002), Schmid (2002a, b), Schmid/Gazier (2002), Mosley et al. (2002), Gazier (2003), Gangl (2003); Muffels/Luijkx (2006), Román (2006), Schmid (2006), Howe (2007), and various contributions in four recently published rich volumes on flexicurity and transitional labour markets by Jørgensen/Madsen (2007), de Koning (2007), Lassnigg et al. (2007) and Muffels (2008).

**Figure 4: Non-standard employment rates in 1998 and 2005**



Source: EUROSTAT, Labour Force Survey; own calculations

Non-Standard Employment:

- Employees with a temporary contract
- Solo-self-employed working full-time outside agriculture
- Part-time workers with permanent contracts (employees) and part-time working solo-self-employed persons who define themselves as part-time workers

First, as the clustering above the steady-state diagonal demonstrates, non-standard employment increased in almost all EU member states, especially in the Netherlands, Spain and Italy.

Second, as the clustering according to employment systems shows, the Nordic systems (the Netherlands as a hybrid system included) as well as the Anglo-Saxon systems are at the top; the Continental systems as well as the Mediterranean systems are in the middle, and most of the new member states are at the bottom. This pattern strongly correlates with economic prosperity in terms of GDP per capita and allows the following tentative conclusion: the more highly developed the employment systems are, the higher the contractual variety of employment relationships is.

Third, the fact that Nordic as well as Anglo-Saxon systems rank highly in terms of non-standard employment can be taken as circumstantial evidence that non-standard jobs are related to very different regulatory frameworks. Further, not all of these jobs are precarious or exclusionary. They can serve as stepping stones or as intermediary jobs within a meaningful work life career. Non-standard jobs, however, often involve a higher risk of exclusion than standard jobs.

This increasing contractual variety of employment relationships is the empirical backdrop to the concept of transitional labour markets. Against this backdrop, the aim of TLMs is, metaphorically speaking, to provide “social bridges” that compensate for the higher risks of this increasing contractual variety and to ensure that non-standard jobs become “stepping stones” to sustainable job-careers. In order to establish such institutional arrangements, it is therefore helpful to think in terms of social risk management, which will now be explained and illustrated with some examples.

#### **4. Employment Strategies Following the Theory of TLMs**

TLMs concentrate on five critical events over the lifecourse: transitions from education to employment, transitions from one job to another, transitions between employment and unemployment, transitions between private household activities and gainful work, and eventually transitions from employment to retirement.

Each of these transitions is associated with specific risks: First, the risk of too little or eroding human capital or income capacity over the lifecourse; second, the risk of income volatility due to fluctuating demand and job-to-job transitions or even the risk of working poverty due to low wages; third, the risk of restricted income capacities due to social obligations such as child care or elderly care; fourth, the risk of income insecurity due to unemployment; fifth, the risk of reduced or zero income capacity due to disability, chronic illness or old age.

The theory of TLMs assumes that specific risks also require specific securities. According to the principle of requisite variety (Ashby 1979), the higher the variety of risks the higher the variety of social securities should be. The theory of TLM also rests on modern behavioural economics, notably on prospect theory (Kahneman and Tversky 2001). It does not assume consistent rational behaviour but asymmetric risk perceptions. Loss aversion tends to be greater than risk taking for gains. People tend to be myopic when related to high risks with low probabilities, but far-sighted when related to low risks with high probabilities. As a consequence, many people tend to insure themselves, for instance, against possible disruption of their travel plans but not against the possibility of long-term vocational disability; they are also less willing to save for any education or training that may be necessary in the future than to save for a new and maybe prestigious car. Social protection systems, therefore, often follow a logic that is too simple or that is



different from that required by lifecycle risks. In the following, we present some of these systematic misfits and possible remedies.

We thereby distinguish three strategies of social risk management: The prevention or the mitigation of risks, and the coping with risks. Prevention directly tackles the causes of risks and should therefore be given priority. However, uncertainty looms large and thus makes prevention impossible. Prevention can also be prohibitively expensive or restrict flexible adjustment. Mitigation and coping strategies, therefore, have to complement prevention.

First, according to the principles of TLMs, it does not make sense to protect people against the risk of too little or to erode human capital through high- and long-term unemployment benefits. On the contrary, such generous benefits would damage more than resolve the underlying problem. Equally, in-work benefits for unemployed youth would not make sense, since they would perpetuate the lack of human or social capital. Prevention is the main solution here. To prevent youth unemployment, social risk management must already start in the kindergarten, in pre-schools and primary schools. Not only should equal opportunities in elementary and secondary education be adapted to a knowledge society, but also elementary social skills for communication and learning abilities have to be ensured.

As mitigation strategy, it is of the utmost importance that the state ensures a training place or a job after six months of unemployment at the latest. All firms must share the risk of the lack of human capital and contribute at least financially to vocational training if they are not able or willing to offer the training themselves.

Sufficient education and vocational training are a crucial element of active securities over the lifecycle. It is also a precondition for taking on more individual responsibility than in the traditional welfare state. To cope with this risk, active labour market policy, therefore, should ensure for everybody a second or third investment chance over the lifecycle.

Sweden provided the best example in this respect. Between 1997 and 2002, the Swedish government invested 350 million euros yearly for low-skilled people – independent of whether they were unemployed or employed – in order to lift their knowledge to a level appropriate to the knowledge economy (Albrecht et al. 2005). This allowed about 100,000 people to get continuous vocational education and training in addition to

the normal stock of trainees, which roughly corresponds to 2.5 per cent of the working age population.

Second, income volatility over the lifecourse is often caused by externally induced job changes or externally enforced short-time work. Income volatility, however, can also be caused more and more by endogenous changes such as changing job preferences, family relocation or even the wish to take a sabbatical. Working poverty results if wages are so low that the wage income falls below a decent minimum income despite full-time work. A basic income guarantee, especially in old age, is a powerful preventative strategy to ensure income security for people with discontinuous lifecourses and related income volatility. The Netherlands and the Nordic countries offer good examples in this respect. Minimum wages also prevent working poverty, to some extent, through three channels: first, by protecting a basic level of decent wages, second by avoiding cut-throat competition and third by stimulating continuous investment in competitive workplaces.

Long-term saving or lifelong learning accounts are proper strategies to mitigate and cope with volatile income risks. Since the resulting flexibility or mobility through such saving schemes creates positive external effects, the state could step in as a co-financing institution by providing tax incentives.

The Dutch lifecourse saving plan (Wotschack 2006) and the Belgian career break system (Román 2006) are good practices that could be adopted by other EU member states. However, care has to be taken with respect to some flaws in the present design of these schemes. Young adults, especially, are usually in a lifecourse phase in which they are not able to build up enough savings. Education and care credits might be arranged to cope with the risk of low earning and saving capabilities.

Third, if people's income capacity is restricted, for instance due to family obligations, this risk has to be compensated by income supplements or in-kind benefits. The best and most powerful preventative measures are the public provision, or at least public financing, of day-care facilities. In-work benefits, including tax credits, are a proper instrument of risk mitigation, especially for low income earners. As a coping strategy, full-time or part-time leaves from work due to social obligations should be compensated like wage replacements in case of involuntary unemployment.

Concerning good practice, some EU member states, for example Sweden and Denmark, have already arranged such schemes. The Grand Coalition in Germany recently introduced wage-related parental benefits compensating about 58 per cent of wages up to 14 months, two of which have to be taken up by men. Due to the high individual costs of child care, but also due to the high benefits of child care for the whole of society, and, last but not least, for reasons of gender mainstreaming, the wage replacement could even be more generous for low- and medium-income earners. Since children and frail grandparents often need care that cannot be planned in advance, wage replacement for some days per year should be available. Sweden, for instance, acknowledges this need through a contingent of up to 60 days per year at a wage replacement of 80 per cent.

Fourth, the proper response to the risk of income insecurity (caused by unemployment, for instance, through cyclical demand variations or through redundancy dismissals) is to provide for generous income security. It is of the utmost importance to consider income protection in this case not as a passive measure but as active security.

First of all, however, preventative measures through job creation and continuous vocational education and training have first priority. Without thriving job dynamics and without employability that fits the requirements of the knowledge economy (Rodrigues 2002), income protection would indeed turn into a passive measure. The best income security measure for the involuntarily unemployed is the creation of new competitive jobs through a sound macroeconomic policy.

If the risk, however, has occurred, the proper mitigating strategy is to compensate the income loss through generous unemployment benefits. A generous wage replacement allows the unemployed person to search for a new job that corresponds to his or her capabilities without the fear of getting trapped into a career of poverty. Generous wage replacement helps to maintain a worker's qualifications and competence. It also improves the efficiency of job matching. High matching efficiency through unemployment insurance is, for instance, reflected in longer job tenures after the rematch of insured unemployed persons compared with uninsured unemployed persons. In its recent Employment Outlook, even the OECD discovered by econometric work that reducing the generosity of unemployment benefits may induce some unemployed persons to leave unemployment more quickly, but it also significantly reduces productivity.

Appropriate coping measures are intensive job search and case-oriented job placement services. Again, such services are an investment and not

wasteful consumption. Many EU member states still underinvest in such services during the first months of unemployment. However, long-term or even unlimited wage-related unemployment benefits do not make sense for this risk category. Apart from inducing moral hazard, they would not help the long-term unemployed – far from it.

Good practice in combining mitigation and coping measures in the management of redundancies is shown by the Austrian work foundations ('Arbeitsstiftungen') and the new Finnish measure "Change Security" ('Muutosturva'). The Austrian practice is to set up a work foundation which functions as a kind of transition agency. These transition agencies ensure an integrated approach in terms of organizing and financing. The funding comes from four sources: First, the foundation's capital is given by the firm, thus granting it its independence as long as it is needed. Second, the redundant workers themselves make a contribution by depositing 50 per cent of their redundancy payments into the foundation. Third, workers remaining in their positions pay the foundation a small proportion of their monthly wages as a solidarity contribution. Fourth, the public employment service guarantees the payment of unemployment benefits up to four years, which covers the majority of the costs. The foundation ensures an early start to reintegration and organizes a wide range of individualised services that are helpful when workers are seeking new jobs in the regional labour market. These characteristics lead to a very important consequence: firms that cause redundancies take over responsibility in a limited sense and workers that engage in retraining and placement activities are volunteers and get a strong start instead of suffering from the stigma of being redundant. Evaluations report reintegration success of up to 95 per cent.

The Finnish "Change Security" programme was put in place in 2005 to address, in particular, large-scale redundancies. It aims at an early start to active measures in situations of mass dismissals and company closure through co-operation between different regional stakeholders. It includes the right of the employees to individual programmes or re-employment or re-education, free time for job searching and counselling while still on the job and higher levels of benefits in the transition period. It includes an obligation for employers to inform the employees and officials in time, and to make plans for re-employment together with the employees and the local public employment office. First-hand experiences with this new programme report positive results and emphasize, in particular, the new levels of co-operation in labour market affairs between the key stakeholders.

Fifth, it would be misplaced to protect the risk of reduced or zero income capacity due to disability or old age through long-term unemployment benefits. The use of unemployment insurance for early retirement was one of the greatest mistakes of several EU member states during the 1990s. This risk needs to be managed by other measures.

Active labour market policy – if it deserves its name – should concentrate on prevention, since the causes of diminishing income capacities are well known. Income capacity, therefore, should and could be re-established through regular individual work assessments and corresponding training measures. Much can also be done through workplace adjustment. In other words: Not only do workers have to be made fit for the market, but also the market has to be made fit for the workers – a slogan aptly coined by Bernard Gazier (2007).

The risk of reduced income capacity can also be mitigated through partial compensation of the related income loss. Such wage insurance would be an essential and innovative element of transforming conventional unemployment insurance into employment insurance. Workers who are mature adults, especially, need such insurance, since they face large income losses if they become unemployed and subsequently re-employed. This need is also nourished by the fact that internal labour markets that provide implicit wage insurance are becoming eroded. Furthermore, the escape to early retirement as an income insurance device is no longer an option. Wage insurance would increase workers' willingness to take on lower-paid jobs, especially when it is combined with training vouchers to make the new jobs sustainable and to improve their chances of climbing up the career ladder again.

Last but not least, individualised rehabilitation is still a much underutilised measure to cope with the risk of diminishing income capacity. Another possibility is the creation of transitional jobs, as is the case in most Scandinavian countries, especially in the form of the Danish 'flexjobs', or jobs created by various forms of social enterprises, as is the case, for instance, in Sweden and the Netherlands.<sup>7</sup> Good practice is especially to

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<sup>7</sup> The target group of the Danish 'flexjobs' consists of persons with a permanently reduced work-ability who are not entitled to pre-pensions. The employer receives a wage subsidy amounting to one third, one half or two thirds of the minimum wage depending on the extent to which the work-ability of the person is reduced. The person in a 'flexjob' receives wage according to the collective agreement. The number of persons in such jobs rocketed recently to the level of 40,000, which would correspond in Germany to the level of 600,000, 1.5 per cent of the active labour force. As of January 2006, the Swedish 'plusjob' is an enhanced form of employment subsidy made available to 20,000 long-term unemployed men and women, targeted at quality-improving work in the

be found in the comprehensive approach of active ageing in Finland, which succeeded in increasing the employment rate of elderly persons by 18 percentage points within 8 years.

## **5. Intermediary Conclusions: From Activation to Work-life Orientation**

To sum up, modern labour markets, first of all, are characterised by an increasing variety of employment relationships. This variety reflects new modes of production due to new technologies, new forms of work organisation due to increasing competition and international labour division, and new work-life risks related to social and demographic changes. Taking all these features together, modern labour markets seem to need both more flexibility and new securities. The European employment strategy adopted the slogan of flexicurity as an answer to these new challenges.

Second, flexicurity, however, is not and cannot be a unitary concept. The eight common principles of flexicurity for EU member states, now formulated by the European Council, are helpful in preventing an arbitrary usage or even political instrumentalisation of the term. They rightly emphasise that EU member states have to find their own deliberate combination of flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, and sustainable social protection systems.

Third, there is a lack of criteria for assessing equitable *and* efficient combinations of flexicurity arrangements. The call for a balance of flexibility and security is empty without such criteria. The concept of transitional labour markets provides a normative and analytical framework to develop such criteria based on a lifecourse orientation. From such a perspective, one has to ask: Why should income security only be related to the income risks of jobless people? Why should security not be provided for income risks related to critical transitions over the lifecourse? Why should insurance not cover the income risks related to transitions between family work and gainful employment, between dependent work and self-employment, from high-paid to low-paid jobs, between full-time and part-time work, from work to gradual retirement?

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public sector in order to minimize displacement effects. The employer receives a subsidy of 100 per cent of the wage cost up to a specific ceiling.

From such a perspective, managing the balance of flexibility and security over the lifecourse requires a wider set of opportunities than just “making work pay”. It requires institutional arrangements that are also “making transitions pay”. Such arrangements contain at least three new institutional ingredients: first, new social rights that go beyond employment, for instance the right to training leaves, care leaves, intermediate working time reduction or even long-term sabbaticals; second, new forms of governance, especially arrangements that break with the traditional division between labour market and social policy (Supiot 2001). This requires intelligent network models of co-operation and co-financing beyond labour market agents; third, an extension of the social insurance principle to income risks beyond unemployment, which means to income risks also related to critical transitions over the lifecourse.

Fourth, a way in which to extend the social insurance principle to a broader set of lifecourse risks than unemployment would be to establish a system of work-life insurance. Such a system would build on three pillars: first, a universal minimum income guarantee that ensures a life without persistent poverty; second, the extension of unemployment insurance to employment insurance; third, private or collectively negotiated insurance accounts targeted especially to lifecourse risks such as lifelong learning accounts, time-saving accounts or care-leave systems. Governments could join such ventures at various levels through tax subsidies, standard setting and co-financing partners.

Fifth, the system of employment insurance would serve three functions: generous income protection for a restricted period of time in involuntary unemployment; employment security through active labour market policy that is not only confined to offering jobs and placing individuals in work but that also supports follow-up measures to transform mere workfare measures into stepping stones to sustainable work; and finally better inclusion of non-standard workers in labour law and social security systems. One innovative element of employment insurance is the concept of wage insurance. Such insurance would cover, to some extent, the loss of wage income when changes of employment become necessary due to structural change, for instance trade adjustment, or due to the loss of individual productivity, for instance through attrition of work and income capacities. Acceptance of intermediate downward mobility should be rewarded by active labour market policy aimed to re-establish upward mobility.

Sixth, it must be kept in mind that stakeholders often have conflicting interests that cannot be explained away. The problem of divergent

interests can only be solved through negotiation as a device of information gathering, communication and building compromises. The revitalisation of the social dialogue, in other words, negotiated flexicurity at all levels – firm, branch, nation and Europe – is therefore of the utmost importance for putting more flesh on the bones of the European employment strategy. Negotiated flexicurity, however, may lead to new insider-outsider cleavages, since organized interests may set compromises on the costs of less well organized interests. Care, therefore, has to be taken to avoid externalisation of social costs by setting minimum standards and fair rules of negotiation. The government at various levels may also jump in as co-financing partner to overcome the prisoner’s dilemma in which rational actors choose a suboptimal equilibrium.

Seventh, as the successful countries demonstrate, flexicurity has to be embedded in sound macro-economic and macro social policy. Without sustainable job creation dynamics, all employability and stepping-stone strategies are in danger of ending in a cul-de-sac or of displacing other categories of workers. Because Europeanization, in particular the Eurozone, increases interdependencies, co-ordinated efforts to stimulate sustainable economic growth are required, especially through investments in a better European economic and social infrastructure. The extension of the European Social Fund to a European Employment Insurance Fund, or at least a complementation of the European Social Fund by a focused European Knowledge Lift Fund, would make the European Social Model more visible and tangible.

## **6. The Finnish Labour Market from the TLM Point of View**

As we analysed the points of departure of flexicurity policies and the main assumptions of the TLM theory in the preceding sections, the aim of this part is to continue the discussion further with Finnish empirical data. Does the TLM approach give something new for the interpretation of the Finnish labour market dynamics and labour market policy conclusions? Whereas the TLM point of view provides some fresh insights into the particularities of the Finnish labour market, our empirical exercise also indicates needs and opportunities to develop the conceptual framework further.

Transitions are in focus as the name “transitional labour market” states, and these transitions can be analysed through labour market flows. Longer-term transitions during the working career should be analysed as



well, but because of data reasons we shall concentrate here on shorter-term dynamics and on describing the flows themselves.

First of all, we can analyse the differences in labour market transitions<sup>8</sup> between the EU25 and Finland. Stability of employment is characteristic of the transitions between 2003 and 2004, in other words, those people who have been employed are typically employed in the next year, too. This holds for over nine cases out of ten. The situation of the employed does not differ between the EU25 and Finland. However, the stability in unemployment seems to show a 10 percentage point difference in favour of Finland, as 48 per cent of the unemployed in the EU25 remain unemployed the next year, too, since for Finland the figure is 38 per cent. Closer inspection shows that this difference is caused by excess transitions outside the labour market in Finland compared with the EU25 and slightly better transitions to employment in the EU25. A remarkable difference in transitions can be seen in the group outside the labour market, as in Finland the dynamics of transitions from outside the labour market to other labour market statuses is 21 percentage points higher than in the EU25. In this group, transitions to employment and unemployment are remarkably more common in Finland. The active labour market policy could partially explain the high magnitude of these transitions. In general, flows are sensitive to definitions and measurement, which makes it difficult to compare them between countries. However, in applying discrete flows the comparison is not so risky.<sup>9</sup>

**Table 1: Labour Market Transitions between 2003 and 2004 in the EU25 and Finland**

	<b>2004</b>					
	EU25			Finland		
<b>2003</b>	employed	unemployed	outside	employed	unemployed	outside
Employed	<b>94</b>	3	3	<b>93</b>	3	4
Unemployed	30	<b>48</b>	22	27	<b>38</b>	36
Outside	10	4	<b>86</b>	23	12	<b>65</b>

Source: Employment in Europe 2005, 232-3.

<sup>8</sup> See the transition rates from school- to-work for young people in OECD (2008).

<sup>9</sup> See the main characteristics of labour market flows presented by Schettkat (1996).

How common employment is in relation to how much work is done, i.e. the difference between the standard employment rate and the full-time equivalent employment rate, is narrower in Finland compared with the European average level. The employment rate in the EU27 equalled 64.3 per cent in 2006, but the full-time equivalent was only 58.9 per cent. In Finland the respective figures were 69.3 per cent and 66.2 per cent. The difference is caused among other things by the relatively low rate of part-time work in Finland (Employment in Europe 2007, 284, 311). The Finnish employment rate would probably be higher if a greater variety in employment relationships could be arranged. (Compare this with the example of Sweden presented earlier.)

The strictness of employment protection legislation (EPL) is at the average European level in Finland, and practically no changes have been made since the year 1990 (OECD 2004). The Finnish regime has even been surprisingly stable in this respect, which means that some kind of balance has probably been achieved. Demands for reforming the EPL have been presented mostly by entrepreneurs concerning the (lighter) criteria for individual dismissals. The net replacement rates of the unemployment benefit system have been relatively high in Finland by European standards and especially high for long-term benefit recipients (OECD 2002). As the EPL regime is on average level and the real dynamics in the labour market high, it seems that the EPL regime does not prevent transitions on the aggregate level, but it remains unclear whether the EPL regime fosters transitions in any way.

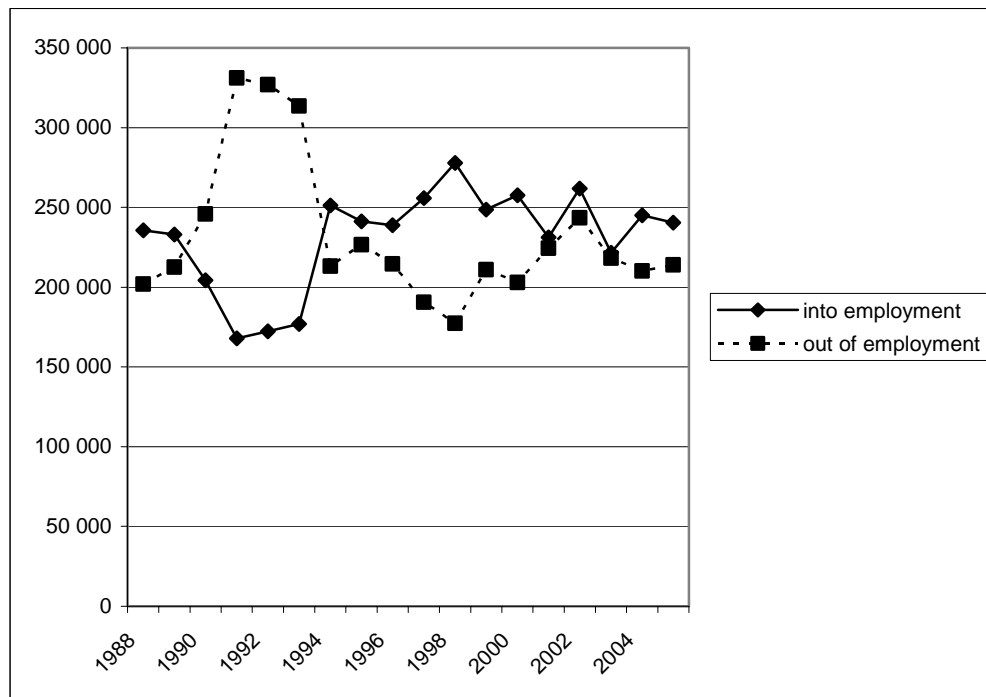
The issue emphasised by the TLM theory regarding the unemployment benefit system is the sufficient security during newly started unemployment in order to reach efficient matching. The Finnish system meets this condition well. The point of view of TLM towards long-lasting high unemployment benefits is fairly critical and in this respect the Finnish system differs from the assumptions of the TLM theory. However, it must be noted that the majority of the unemployed receive a flat-rate labour market support benefit and the replacement rate is not particularly high in relation to the earnings-related unemployment insurance benefit.

The Finnish labour market policy reform has been compared with other four essential European labour market policy reforms. The reforms of Finland, Denmark, Germany, the Netherlands and the UK had only some common aspects out of the 14 reform areas investigated. These were the unemployment benefit systems, the public employment service and young people and the long-term unemployed as target groups for policy (Räisänen 2006, 54-5). The Finnish labour market policy reform profile

emphasised some aspects that were relevant from the TLM point of view, like the interconnection of labour market policy with broader economic policy, co-operation with social partners, new service models and minor unemployment benefit reforms, but the main emphasis in the Finnish reforms has been on activations and short-term labour market dynamics in spite of lifecycle thinking emphasised by TLM. The change security system applied later is an example of widening the time horizon and thinking from short-term transitions towards longer-term resources, qualifications and transitions necessary for it.

A slightly other kind of perspective on employment is found by analysing employment flows. The Employment Register Statistics by Statistics Finland makes it possible to observe discrete flows to and from employment. A person enters employment within the year in question if he/she has a registered employment relationship in force at the end of the year, and this was not the case one year earlier. The outflow is considered respectively. Summing up these flows, we get discrete gross flows of employment in a year. They have numbered between over 400,000 and almost 500,000 persons yearly. In relation to the number of employed persons, this was an approximately 20 per cent share in 2005, for example. Ilmakunnas and Maliranta (2008, 34) have analysed the development of job and worker flows by using individual level data in the business sector. The indicator they use shows a worker inflow rate of 0.24 in 2004 and a worker outflow rate of 0.25, since the (gross) worker flow rate was 0.48 and the churning flow rate 0.25. The inflow and outflow rates have been surprisingly stable in different years, but the variation between branches and regions is high.

**Figure 5: Discrete gross flows into and out of employment in 1988-2005**



Source: Statistics Finland, employment register statistics

A cyclical component can be observed in the flows. The flows into and out of employment also seem to resemble mirror images of each other: as one goes up, the other one goes down. In the recession of the 1990s the flow out of employment dramatically exceeded the opposite flow, but the situation had already changed in 1994 and has remained this way since then. We could interpret the situation, taking the rather limited time period into account, that in a period of economic recession not only the outflow from employment increases, but also the inflow into employment drops, as recruitment clearly declines. In a period of growth the difference works the other way round.

Next, the analysis of employment flows can be disaggregated into components of the origin and destination of the flow, which consist of the components of studying, unemployment and others (those outside the labour force). In addition, the analysis is presented in net terms by calculating the difference between the flows in the year in question. The main contribution to employment has come from students during the period between 1988 and 2005. Annually, some 30,000 to 50,000 new employed people come from this source in excess of the opposite flow

from employment to studying. In 1998 this net flow even reached the level of 76,000 persons. Flows between unemployment and employment have been large in magnitude in gross terms despite the last few years, which means a large number of transitions taking place, but the opposite transitions are also of great magnitude. This means that the net contribution to employment was of minor importance in 2003/ 04 and even negative in 2001.

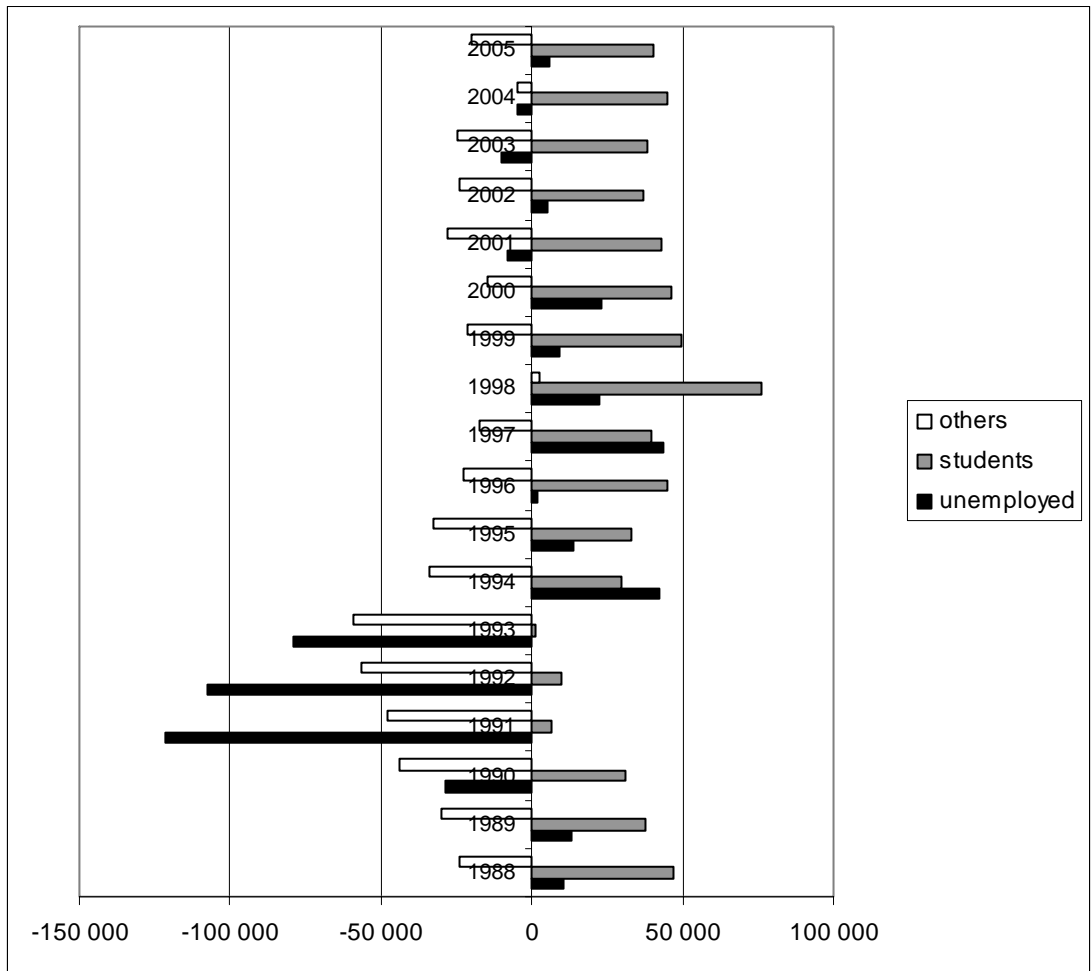
In the longer time span there are great changes in the magnitude of these flows. Every year the group of other persons outside the labour market except students gets more people from employment than people transferring in the opposite direction. Those outside the labour market include pensioners, for example.<sup>10</sup> We can also observe a structural and a cyclical component in the flows. Even if the situation in Finland at the beginning of the 1990s was exceptional, we can interpret the developments in such a way that the structural employment contribution comes to a large extent from students entering the labour force, and the structural channel out of employment is through the group of “others”, which includes people who are about to retire. Unemployment behaves much more like a clear cyclical component with a procyclical employment contribution.

From the TLM point of view it would be necessary to develop the flow statistics further and to relate transitions to career risks during the lifecycle (e.g. the risk of moving from high wages down to low wages or the chance to move from part-time to full-time work) and to labour market policies (e.g. the impact of participation in labour market policy measures on speeding up the transition from unemployment to employment, on moving from temporary to regular jobs or on lowering the risk of becoming unemployed).

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<sup>10</sup> Comparing the mobility table in Employment in Europe 2005 with the figures calculated from the data, the differences in the flows are between one and two percentage points in 2003 and 2004. This difference may be partially caused by varying definitions given for full-time students.

**Figure 6: Employment contribution of studying, unemployment and others in terms of discrete net flows between 1988 and 2005**

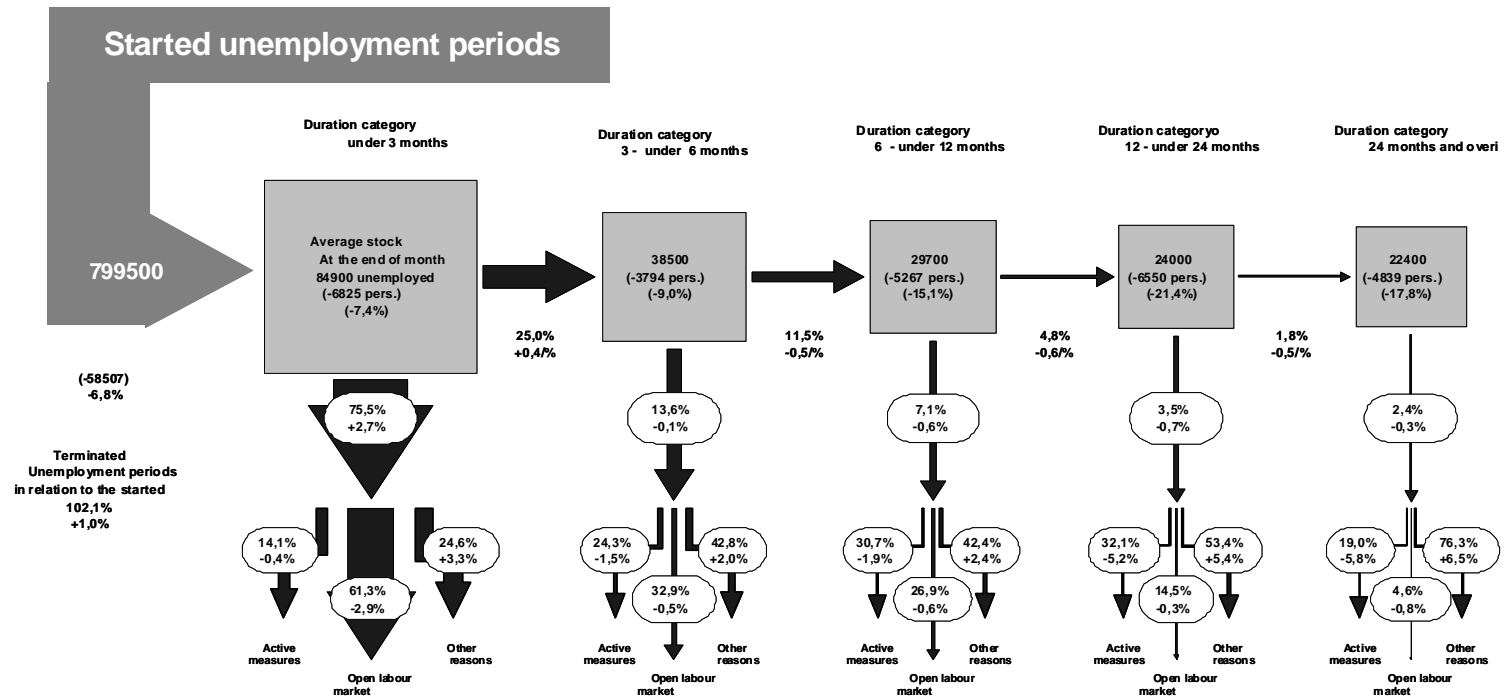


Source: Statistics Finland, employment register statistics

Figure 7: Monitoring system for unemployment transitions

### Stock-flow figure of unemployment between June 2007 and June 2008

The percentages point out the flow in relation to the initial inflow  
 Change in relation to the period between June 2006 and June 2007 in percentage points



The percentage breakdown into ALMP measures (left), open labour market (center) and other reasons (right)

One interpretation of this development can be found in the stock-flow figure of unemployment.<sup>11</sup> The “boxes” demonstrate the stocks and the arrows flows, respectively. The thickness of the arrows means the magnitude of the flow in question. The arrows to the right are prolonged flows to the next duration category and the arrows downwards are the outflows from the duration category. This outflow is further disaggregated into flow to active labour market policy measures (left), open labour market job (centre) and other reasons (right). From the TLM point of view we can observe the high short-term dynamics in Finnish unemployment. Three unemployment spells out of four terminate before three months’ duration. The longer the periods last, the thinner the flows become. The labour market transitions concentrate heavily in the short-term end of unemployment, which could be called “transition (or flow) unemployment”. The long-term unemployment end of the figure could be called “missed transition (or stock) unemployment”, where only a few transitions in relation to the stock occur. This dynamics calls for a bridging approach to transitions (or preventive approach) in helping the unemployed to find a new job or to enter the ALMP measures or tailored employment services. Even if the overall dynamics of unemployment is high in Finland, the transition dynamics of many individuals is not the same as monitored here on the basis of unemployment spells.

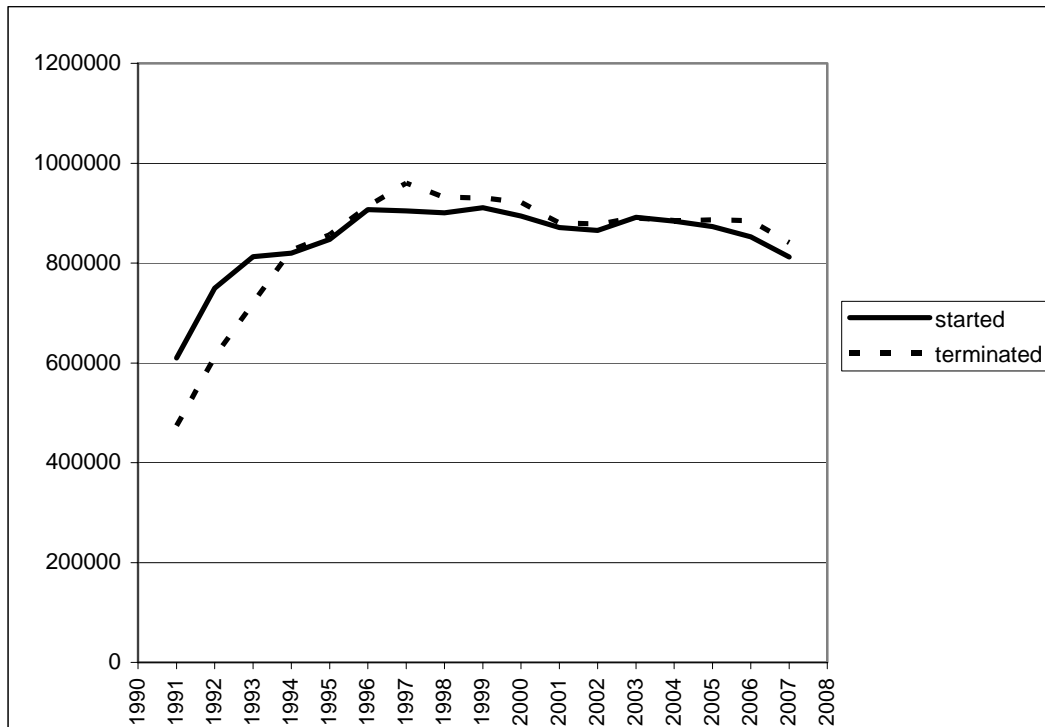
One answer to the question as to what causes the high unemployment dynamics can be found from the pre-unemployment activity, in other words, from which labour market status unemployment stems. The most central source of new unemployment is the termination of temporary jobs, even having come somewhat down in the first years of 2000, but more than half a million unemployment periods start from this source. This feature also describes one side of the “transitional unemployment” phenomenon. The labour market dynamics between branches and enterprises varies heavily, e.g. in service industries and construction the excess job reallocation rate as well as worker flow rates are higher than in manufacturing branches (Ilmakunnas – Maliranta 2008).

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<sup>11</sup> See Räsänen (2001, p. 343-4) for grounds for applying the flow approach in labour market policies.



**Figure 8: Continuous gross flows of unemployment between 1991 and 2007, number of spells**

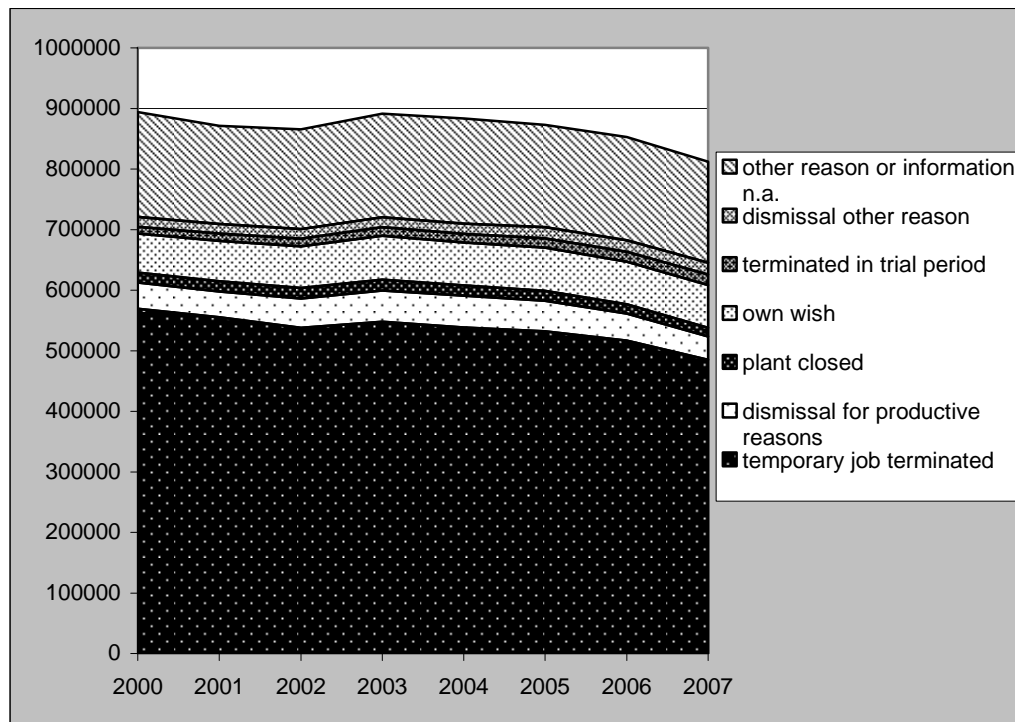


Source: Ministry of Employment and the Economy, employment service statistics

This situation is reflected in the unemployment flow dynamics as well. Despite having big headlines and much attention in public debate, dismissals based on reasons related to production or plant closures are rather minor factors behind new unemployment. In the class “*other reasons or information n.a.*” includes, among other groups, those entering the labour market for the first time, such as those getting their qualifications or graduating or those coming from outside the labour market for other reasons and those cases where the reason for the termination of the previous job is unknown to the PES (register).

The increased dynamics of unemployment could be caused by more transitions between unemployment and other labour market statuses. Based on the Finnish development this could explain the increased dynamics of the 1990s in relation to the 1980s. However, in recent times job tenure seems to have been prolonged, and the sole excess labour market dynamics has been the result of shorter unemployment periods. Shortening the duration of unemployment spells has been the central mechanism to reduce the unemployment level.

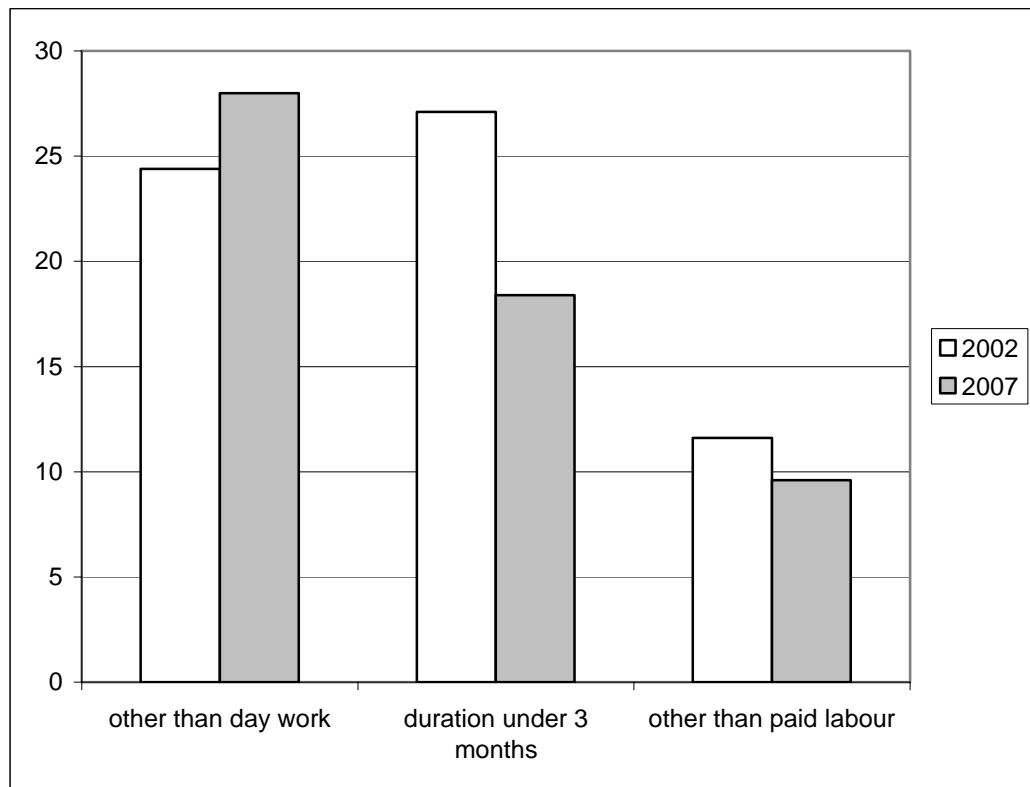
**Figure 9: Reasons for termination of pre-unemployment job in 2000 to 2007, unemployment periods**



Source: Ministry of Employment and the Economy, Employment Service Statistics

During the last few years some changes in the type of open job vacancies have occurred. The ‘untypical’ job characteristics monitored through the vacancies notified to the Public Employment Service have increased according to one factor and decreased according to two. As to working time, other forms of jobs than regular day-work have become more common (part-time work, weekend work, night work, shift work), but temporary job duration for less than three months has clearly decreased, and the category “*other than paid work*” (i.e. entrepreneurial work or self-employment, work paid on the basis of provisions and alternation leave substitute places) decreased moderately. In new recruitment, the share of temporary jobs has decreased according to all duration categories. Recruitment is a signal of what is happening in the labour market and this indicates a somewhat more stable or “typical” kind of employment relationships. One reason behind this may be the tightening of the labour market (Räisänen – Tuomala 2007, Tuomala 2008).

**Figure 10: Some atypical job elements as a relative share of new job vacancies in 2002 and 2007, per cent**



Source: Ministry of Employment and the Economy, job vacancy register data

## 7. Conclusions on Transitional Labour Markets and Flexicurity

The labour market dynamics works well in Finland. In employment as a whole, the dynamics is good. The employment contribution has come especially from students entering the labour market, and the role of unemployment has been of minor importance in the last few years in this respect. The dynamics of unemployment has increased in relation to the stock of unemployment. The main source of new unemployment is temporary jobs; unemployment rising from reasons related to plant closure or large-scale restructuring is even quite rare. In developing flexicurity policies a central issue may turn out to be how individual, small-scale and not mass-level labour market transitions can be surrounded by incentives and security. Also, comparing the high level of continuous gross flows with the relatively modest discrete net flows from unemployment to employment seems to underline the following conclusion: The TLM approach cannot be monitored solely based on aggregate short-term labour

market dynamics; from the individual perspective, transition sequences are more “real” and may have long-lasting effects for their work-life career. On the aggregate level, we often find a high turnover with low net effects on the level of employment or unemployment. It may be of vital importance that employers can operate their business on the basis of temporary employees, but even small changes in net terms on the aggregate level may have large impacts on individuals’ lifecourse. On the individual level short-term jobs may be both, a channel to longer-lasting employment (‘stepping-stones’) and a channel to dead-end careers.

TLM theory provides a good analytical tool for dealing with an individual’s whole labour market career. It sounds especially important to increase risk-taking and the security necessary for it, taking the regionally large, but functionally thin, labour market of Finland into account. For example, related to transitions between work, unemployment and back-to-work partial unemployment benefit could, with the condition of maintaining employment careers, be an instrument to increase risk-taking. Parental leave systems and the job alternation leave scheme make transitions between employment and outside the labour force possible. Regarding the longer-term absences from work, attention needs to be paid to the changes in risks of various labour market actors at the same time as the systems increase the chances of flexibility.

There are grounds for arguing that the current Finnish labour market situation corresponds best to the TLM suppositions in big cities, where plenty of dynamics exist and this situation also creates longer-term employment security jointly with security systems. However, in large parts of the country the labour market is quite thin, new jobs are being created in limited numbers and the structure of the economy is one-sided. This kind of situation does not resemble a common understanding of TLMs, even if mobility and various forms of hybrid employment relationships could be applied. Vacancy filling is more effective in big cities than elsewhere. We could think of this as some form of transition density and large dynamics of unemployment and vacancies, a situation which makes it relevant to consider lifecourse transitions, accumulation of skills and employment security.

As a response, we could consider the urban labour market as being characterised mainly by external flexibility, whereas in the rural labour market mechanisms of internal flexibility seem to prevail or to be required. The elderly workforce in the rural labour market, especially, could benefit from extended internal labour markets, which could be supported by internal flexibility measures, such as job rotation, education

and training and applying part-time retirement; as an intermediate solution between internal and external labour markets, job-pools organized by different employers may be considered. This could be called the model of a “dual transitional labour market”.

For labour market policy, the TLM approach brings, in particular, a new kind of time horizon and way of thinking. It is not enough to make one single intervention and wait to see whether something happens, but more emphasis should be given to the flexibility-security nexus required for maintaining or enhancing employability during lifecourse transitions. This could have very practical policy implications, too, as in the planning of education and training and offering various kinds of jobs to jobseekers and in individually planned labour market policy.

TLM undeniably brings us an analytical tool to sketch out the Finnish labour market. It also opens the rhetoric labyrinth of flexicurity policies especially from a conceptual point of view, not only through describing one or two national models. TLM can be interpreted to a large extent as a micro-founded theory of institutional economics, which is also an emphasis in modern economic policy. The individual’s lifecourse (and why not an enterprise’s as well?) is in focus.

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