

Flexicurity Pathways

Turning hurdles into stepping stones

June 2007

Report by the European Expert Group on Flexicurity

Preface

The Lisbon strategy for growth and jobs¹ underlines the need to improve the adaptability of workers and enterprises. In the Integrated Guidelines (IG) Member States are asked to promote flexibility combined with employment security — ‘flexicurity’ — and reduce labour market segmentation, having due regard to the role of the social partners (IG 21).

The 2006 Spring European Council² stressed the need to develop more systematically in the National Reform Programmes comprehensive policy strategies to improve the adaptability of workers and enterprises. It invited Member States to pursue, in accordance with their individual labour market situations, reforms in labour market and social policies under an integrated flexicurity approach, adequately adapted to specific institutional environments and taking into account the need to combat labour market segmentation. The European Council noted that the Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity.

The present expert report discusses typical situations within EU labour markets with respect to flexicurity and describes pathways responding to the specific conditions, opportunities and constraints of these situations. Such pathways cover both content and procedure. They relate to packages of policies in four components of flexicurity: flexible and secure contractual arrangements, active labour market policies (ALMPs) to strengthen transition security, systematic lifelong learning systems, and modern social security systems. Moreover, as a basis for making flexicurity work, the report points to the paramount importance of a supportive and productive social dialogue as the way to build partnerships with social partners and other stakeholders.³

On the basis of academic literature and ‘good’ practices in the Member States, the report proposes alternative pathways and steps towards enhanced flexicurity that can inspire Member States. This approach takes into account the fact that Member States set out from different starting positions and have different legal and contractual models that often have a long history. These models are strongly embedded in national industrial relations cultures, thereby also shaping the way in which Member States will adapt and change. The alternative pathways do not pretend to fully address the situations in particular Member States, but rather present policy measures that can be a source of inspiration, as a type of toolbox.

¹ Council Recommendation of 12 July 2005 on the broad guidelines for the economic policies of the Member States and the Community (2005 to 2008) (2005/601/EC) and Council Decision of 12 July 2005 on Guidelines for the employment policies of the Member States (2005/600/EC)

² European Council 23/24 March, Presidency conclusions, No 31.

³ The four-component interpretation of flexicurity stems from the European Commission’s 2006 *Annual Progress Report* (25 January 2006, COM(2006) 30; pp. 19-20), subsequently endorsed at the Spring European Council and reflected in the *Joint Employment Report 2007*.

The Expert Group was established in July 2006 by the Directorate-General for Employment, Social Affairs and Equal Opportunities (DG EMPL) and consists of experts chosen on the basis of their academic record. Two other experts, linked to the social partners, acted as advisors. The names of the members, the advisors, and the other persons involved are given in the Annex. The group's main task was to review relevant academic literature and practices in Member States and to advise the Commission on preconditions for flexicurity, various starting positions and flexicurity pathways. The Group met six times in Brussels, chaired until 1 January 2007 by Antonis Kastrissianakis, Director at DG Employment, Social Affairs and Equal Opportunities, and from then by Xavier Prats Monné. Professor Ton Wilthagen acted as rapporteur. The secretariat was the responsibility of Jos Kester from the Commission. The Expert Group has benefited considerably from the presentations and discussions at the Flexicurity Stakeholders Conference, organised by the European Commission in Brussels on 20 April 2007, where the rapporteur presented an interim report on the Group's work.⁴

The debate on how EU labour markets should be modernised is complicated not only from a technical point of view, because of the many variables involved, but especially because it is politically sensitive. This report aims to enrich the debate and complement the analysis provided by other stakeholders including the Commission. A Communication on Flexicurity, planned for adoption in June, will reflect the various contributions and will propose a basis for a set of common principles to be discussed in the Council.

Brussels, June 2007.

⁴ Available at: http://ec.europa.eu/employment_social/employment_strategy/pdf/flex_interimexpertrep_en.pdf.

Executive summary

The labour market situation in the European Union still faces important challenges. Unemployment remains too high in most Member States and unevenly distributed. There is a clear need for new kinds of labour market flexibility as well as new forms of security — flexicurity — that respond to the needs and insecurities of modern economies and labour markets arising from globalisation and demographic change.

The trust of European citizens in future employment opportunities, in the development of human capital, in decent work and labour market developments urgently needs to be strengthened, while companies require a supportive business climate and a transparent and predictable legal framework in order to increase business potential and create employment.

The 2006 Spring European Council stressed the need to develop more systematically in the National Reform Programmes comprehensive policy strategies to improve the adaptability of workers and enterprises. It noted that the Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity.

Common principles of flexicurity will provide Member States and the European Union with a common understanding of flexicurity and the challenges it aims to address. They will strongly underline the involvement of the EU in securing Europe's social and economic future. Indeed, the need to deal with these challenges originates from a common value system, including welfare, equal opportunities, participation, solidarity and dignity, considered part of the bedrock of the EU.

At the same time, practical flexicurity solutions must reflect and respect diversity, related to the way in which Member States' legal systems, labour market institutions and industrial relations have developed in the course of history. The expert report thus concludes that a one-size-fits-all approach is not appropriate. The report identifies four challenges relating to four typical situations in the labour market and dealing with the employment opportunities and securities of various categories of workers and the need to enhance the adaptability and productivity of businesses. Correspondingly, four pathways for flexicurity are mapped out across the four components of flexicurity — flexible and secure contractual arrangements and work organisations, effective active labour market policies, reliable and responsive lifelong learning systems, and modern social security systems — together with the need to develop a supportive and productive social dialogue. Each pathway sets out from a specific challenge. Member States will decide for themselves which challenge is most urgent for them, and, not unlikely, they may wish to draw on more than one pathway. By addressing pathways in a concrete manner, the report aims to contribute to both the quality and concreteness of the current debate on flexicurity in Europe.

The four pathways are the following:

- Pathway 1: Reduce asymmetries between non-standard and standard employment by integrating non-standard contracts fully into labour law, collective agreements, social security and life long learning, and consider making employment in standard contracts more attractive to firms.
- Pathway 2: Enhance companies' and workers' adaptability by developing and strengthening transition security
- Pathway 3: Address opportunity and skills gaps among the workforce by broadening and deepening investments in skills
- Pathway 4: Enhance employment opportunities for benefit recipients, prevent long-term welfare dependence, regularise informal work and build up more institutional capacity for change

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

Finally, the report stresses that flexicurity should be considered a positive sum game, as opposed to a zero or negative sum game where only one party wins. Flexicurity strategies should aim at win-win situations, involving all stakeholders. This also implies that change and the sequencing of changes can be best designed as integrated and broad policy packages. Flexibility can be a precondition for security and security can be a precondition for flexibility — these aspects should be seen as mutually reinforcing in ensuring an optimum response, based on European values, to the challenges of globalisation and demographic change.

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Annex: Members of the European Expert Group on Flexicurity

1. Introduction and structure of the report

The Spring 2006 European Council asked Member States to direct special attention to the key challenge of ‘flexicurity’ (balancing flexibility and security): Europe has to exploit the positive interdependencies between competitiveness, employment and social security. The 2007 Spring Council called on Member States to reflect on the different approaches to flexicurity and consider the best combination of policies that match their individual needs. Member States are therefore invited to pursue, in accordance with their individual labour market situations, reforms in labour market and social policies under an integrated flexicurity approach, adequately adapted to specific institutional environments and taking into account labour market segmentation. To this end, the Commission, jointly with the Member States and social partners, will explore the development of a set of common principles on flexicurity. These principles could be a useful reference in achieving more open and responsive labour markets and more productive workplaces. It is essential that such common principles are supported by and linked to suggestions for concrete flexicurity pathways.

The aim of this report is to map out flexicurity pathways. We consider the typical challenges that labour markets nowadays are facing in the EU with respect to flexibility and security. On the basis of this analysis, we develop the pathways in the form of possible steps to be taken, outlined across the components of flexicurity as identified by the European Commission, and the role of social dialogue and social partnership. The report is written with European and national policy-makers in mind, i.e. governments and social partners, and not directly individual companies or workers. It focuses on national rather than sector- or company-specific measures.

The following chapters describe the findings and results of the activities and deliberations of the Expert Group. Chapters 2-7 deal with the need for flexicurity, the definition of the concept, the interests of both workers and firms, the way to make flexicurity work, the diversity among Member States and the wider context of flexicurity. In chapter 8, four main flexicurity challenges are identified and pathways mapped out to address these challenges. In chapter 9, the financial implications of some measures are discussed. The report ends with brief concluding remarks and recommendations for a flexicurity agenda in chapter 10.

2. Why flexicurity?

Over recent decades, the way European citizens live and work has altered substantially. Competitive pressures and the pace of structural change have intensified.⁵ Four main factors can be highlighted: the fast pace of international economic integration; the rapid development of new technologies, particularly in the information and communication areas; the demographic ageing of European societies, together with relatively low average employment rates and high long-term unemployment, which put at risk the sustainability of social protection systems; and the development of segmented labour markets in many countries⁶ where both relatively protected and unprotected workers coexist (so-called ‘insiders’ and ‘outsiders’).

A major challenge for the European Union is how to combine inclusive with highly productive labour markets.⁷ Although employment rates have recently grown in the EU, coupled with a drop in unemployment in 2006, unemployment is still too high in most Member States and unevenly distributed. At the same time over a million unfilled job vacancies exist and the adaptability of companies needs to be further enhanced. There is underinvestment in lifelong learning by all actors concerned. Compared to the EU’s main competitors (depending on which EU countries are taken into account), there is also a considerable productivity gap both in terms of productivity per worker and productivity per hour worked.

The trust of European citizens in future employment opportunities, in the development of human capital, in decent work and labour market developments urgently needs to be strengthened, while companies require a supportive business climate and a transparent and predictable legal framework in order to increase business potential and create employment.

Moreover, particular categories of the population, i.e. the young, women, older workers, minorities and third country nationals, continue to suffer much higher unemployment and unfavourable circumstances. More effort is needed to hit the target agreed last year for every young person who has left school or university and become unemployed to be offered a job, apprenticeship, training or other employability measure within 100 days.⁸ Early school

⁵ These ‘social realities’ are well documented in a recent Consultation Paper from the Bureau of European Policy Advisers. See: Liddle, R. and Lerais, F. (2007), *Europe’s Social Reality*.

⁶ The extent to which labour markets are segmented and transitions into more stable employment are hampered differs among Member States; see European Commission, *Employment in Europe 2004*, Chapter 4.

⁷ See also the address by Mr Philippe De Buck, Secretary General of BUSINESSEUROPE, at the Stakeholder Conference on Flexicurity, Brussels, 20 April 2007 (available at http://ec.europa.eu/employment_social/employment_strategy/flex_stakeholderconference_en.htm).

⁸ The need to address, from a flexicurity perspective, the problems of outsiders, notably young people, is underlined by the International Council on Social Welfare in its position paper on the European Commission’s Green Paper on the modernisation of labour law.

leaving is a particularly severe problem among immigrants and minorities. Gender gaps remain wide, which calls for stronger commitment to the Gender Pact.⁹ Availability of affordable child care is a problem in a number of Member States, which makes it more difficult to reconcile work and private life. Member States have put some effort into increasing the labour market participation of older workers, but more is needed to create real job opportunities for them. Moreover, although all Member States are struggling to reduce child poverty (as called for by the 2006 Spring European Council), it remains a significant challenge.¹⁰ At-risk-of-poverty rates are still too high and vary considerably between countries, from lows of around 10% of the population to highs above 20%.

Combating asymmetries within the labour market obviously includes the gender, age and ethnic dimensions, and flexicurity policies should aim at social cohesion and fighting poverty and exclusion by spreading the benefits of safe employment and income security to all citizens. Indeed, the need to reduce such segmentation originates from a common value system, including welfare, equal opportunities, participation, solidarity and dignity, considered part of the bedrock of the EU.¹¹

These challenges require a more flexible labour market combined with satisfactory levels of security to respond simultaneously to the new needs of employers and employees. New forms of flexibility and security are needed, for individuals and companies, to be provided by the Member States and the Union as a whole. Individuals increasingly need employment security, to complement job security, as fewer have a job for life. Companies, especially SMEs, need to be able to recruit staff with a better skills match, who will be more productive and adaptable, leading to greater innovation and competitiveness. However, there are signs that Europe is not adjusting as well as it could to the shocks being imposed on its economy. This may aggravate concerns relating to outsourcing and delocalisation.¹² Member States and the EU need to progress further towards a dynamic, successful knowledge economy, with more sustainable growth — based on competitive product markets¹³ — and greater social cohesion.

Flexicurity, as an integrated policy strategy, addresses many of these issues at the same time.¹⁴ As will be argued in the following sections, it does so from a win-win perspective. For example, companies need a better trained workforce, capable of coping with change, while

⁹ Adopted at the European Council in March 2006.

¹⁰ *Europe's Social Reality*, BEPA document, February 2007.

¹¹ See the Communication from the Commission on European Values in the Globalised World, 20.10.2005, COM(2005) 525 final, the EU Charter on Fundamental Rights and the Berlin Declaration (Declaration on the occasion of the fiftieth anniversary of the signature of the Treaties of Rome) of 25 March 2007. See also P.N. Rasmussen and J. Delors, *The New Social Europe*. Brussels: Party of European Socialists, 2007, p.75; Silva Penada, J. and Albino De Rossa, P. (2006), *A European social model for the future* (European Parliament Report), where it is argued that the European Union is based on a unity of values with a diversity of systems.

¹² See e.g. *EU competitiveness and industrial location*, BEPA report, 2006.

¹³ Countries with the best-functioning labour markets all have competitive product markets, see *Jobs and incomes*, OECD 2006.

¹⁴ European Commission's 2006 Annual Progress Report, 25 January 2006, COM(2006) 30; pp. 19-20.

workers need new kinds of security to help them update their skills, remain in employment, or return to employment if they lose their job. Adopting a flexicurity pathway offers an opportunity to improve the balance. Some of the policy measures suggested in this report should operate universally, i.e. they should apply to all individuals. Others, especially those in the areas of active labour market policy and lifelong learning, need a differentiated design and approach. Member States can learn a lot from each other. Mutual learning in the flexicurity field is to be strongly encouraged.

3. What is flexicurity?

Flexicurity can be described as a policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labour markets, work organisations and employment relations on the one hand, and security — employment security and social security — on the other¹⁵. Its objective is to combine employment and income security with flexible labour markets, work organisation and labour relations. The key principles that underpin a flexicurity strategy are that flexibility and security should not be seen as opposites, but can be made mutually supportive.

Encouraging flexible labour markets and ensuring high levels of security will only be effective if workers are given the means to adapt to change, to enter into employment, to stay on the job market and to make progress in their working life. Therefore, the concept of flexicurity includes a strong emphasis on active labour market policies as well as lifelong learning and training — but also on strong social security systems to provide income support and allow people to combine work with care. This should also contribute to equal opportunities and gender equality.

Both external and internal forms of flexicurity can be distinguished.¹⁶ Flexicurity covers transitions and adjustments within an enterprise (internal flexicurity) as well as transitions from job to job between enterprises and between employment and self-employment (external flexicurity). High-quality workplaces with capable leadership, good organisation of work, information and consultation structures and continuous upgrading of skills are part and parcel of the concept of flexicurity. This includes measures that maintain and improve work capacity and offer possibilities to reconcile work and family life. All these measures are a key to improved productivity and longer working lives, aiming simultaneously to increase both labour productivity and wellbeing in European workplaces.

Flexicurity does not imply that permanent contracts, i.e. of indefinite duration, are obsolete and that non-permanent employment is the future. The objective would rather be to reduce the gap between the two, enabling smooth and timely transitions from unemployment into a job and to promote progress into better employment with adequate labour law and social security coverage. This is linked to a major issue flexicurity aims to address: labour market segmentation. Some workers, in particular women, older workers, ethnic minorities and the unskilled, are trapped in less secure and less productive employment, or undeclared work, with fewer opportunities to progress into better jobs. Therefore, attention should be paid to

¹⁵ See Wilthagen, T. and F. Tros (2004). “The concept of ‘flexicurity’: a new approach to regulating employment and labour markets.” *Transfer* 10(2): 166-186.

¹⁶ See European Foundation for the Improvement of Living and Working Conditions, *Varieties of flexicurity: reflections on key elements of flexibility and security*. Dublin, March 2007. Available at: <http://www.eurofound.europa.eu/pubdocs/2007/21/en/1/ef0721en.pdf>.

improving transitions between ‘not working’ and ‘working’, and between various types of ‘flexi-secure’ contracts.

Indeed, workers in standard employment would also benefit from supported transitions in those cases where the protection of their specific jobs would no longer be effective and where employment security is needed to complement job security and ensure future employment opportunities.¹⁷ The flexibility of standard contracts and the security of non-standard contracts could be enhanced by having a system where certain entitlements (on top of the basics) and elements of protection are being built up gradually. Furthermore, it is important for protection systems to be prospective, i.e. they do not restrict the future employment prospects of workers.

Likewise, more ‘permanent’ income and career security for non-standard employment could be improved by introducing better transition security, equal treatment and better social security coverage and by improving the eligibility of non-permanent workers for mortgages, loans, saving and pension schemes (another entry port issue). Here, we see two main pathways of flexicurity: making ‘normal’ employment more ‘flexible’, in terms of adaptability, without giving up security and making flexible work more ‘normal’, in security terms, without giving up flexibility. In fact, examples of both strategies can already be witnessed across Europe (Spain, Denmark, the Netherlands).

¹⁷ See also the analysis in the 2007 report on investing in employment security by the Dutch Scientific Council for Government Policy (WRR, The Hague, April 2007).

4. Flexicurity is in the interest of both workers and employers

In today's labour markets a high degree of flexibility and adaptability is in the interest of both employers and employees. Workers also need 'active' flexibility (i.e. flexibility geared towards their needs) to be able to combine work and private responsibilities; companies need flexibility to anticipate and respond to changing market demands and circumstances. At the same time, security, in a dynamic perspective, is not just a matter of protecting the worker against losing his or her job. It is about building and preserving people's ability to enter, remain and progress in employment throughout the life-cycle. It is also about security for firms to preserve and improve their market position, the loyalty of their workforce and their productivity and job creation potential within an increasingly competitive environment.

This approach transcends the simple trade-off between flexibility and security, where the former is seen to be in the exclusive interest of the employer and the latter in the interest of the employee. Flexicurity practices in various countries demonstrate that flexibility and security, if designed in the right way, can be mutually reinforcing. Policies associated with security, providing adequate levels of unemployment benefits combined with activation policies, can also increase flexibility, by providing workers with the confidence that they will be helped to find new employment as quickly as possible. This will reduce fears among workers of losing their jobs. Policies traditionally associated with flexibility may, under specific circumstances, also increase employment security. They can be part of a wider policy mix stimulating job transitions and job creation.¹⁸

The idea of synergy between flexibility and security is not new to the EU. At the request of the Commission, European social partners have successfully negotiated agreements on parental leave, part-time work and fixed-term contracts. In addition, there are also autonomous agreements on telework and lifelong learning. Moreover, the social partners at EU and Member State level are responsible for a variety of recommendations, guidelines, guides to good practice, joint opinions and declarations.¹⁹ Finally, there is the paramount role of collective bargaining. Collective bargaining has a dual role, both as an important 'regulatory force' (to regulate contractual and employment relations as well as internal and external flexibility in a broad range of areas, from working time to agency work, from work organisation to the reconciliation of work, private and family life, etc.) and in providing a democratic and participatory process for modernisation and change.

¹⁸ In today's labour market, high employment protection does not in itself guarantee a high overall feeling of security among workers. In *Employment in Europe 2006* (p. 88) this is called the insecurity paradox.

¹⁹ See e.g. the Work Programme of the European Social Partners 2006-2008, where the balance between flexibility and security is mentioned as one of the key challenges where a joint analysis will be undertaken. A recent example of a flexicurity agreement between the European social partners is the Joint Declaration drafted in the temporary agency sector by Eurociett and Uni-Europa.

Flexicurity could best be seen as a system of joint and mutual risk management for workers and employers. Employers face the risk of a weakening market position due to increased competition, but also the risk of a quantitative and qualitative mismatch of labour supply as a result of technical progress, demographic change and varying preferences and competences among workers. For workers, job or employment security and the possibility of reconciling work and private life may be at risk due to business responses to globalisation and intensified competition. Therefore joint and mutual risk management is needed. Contributing to the risk management of the other party contributes to managing one's own risks. It is crucial that not merely current risks but also future risks are addressed, as the needs for flexibility and security can and do vary across the life course and the business-cycle.²⁰

²⁰ See Klammer U, Keuzenkamp S., Cebrian I, Fagan C., Klenner C. and Moreno G., *Working time options over the life course: changing social security structures*, Luxembourg: European Foundation for the Improvement of Living and Working Conditions, Office for Official Publications, 2006 and Muffels R., Chung H., Fouarge D., Klammer U. Luijkx R., Manzoni A and Wilthagen T., *Flexibility and security over the life course: results and policy implications*, Luxembourg: European Foundation for the Improvement of Living and Working Conditions, Office for Official Publications, 2007, forthcoming.

5. Making flexicurity work

The Commission and the Member States, drawing on experience of previous work, have reached a consensus on an operational concept of flexicurity which comprises four components.²¹ These components can in turn be used to operationalise the concept of enhanced flexicurity pathways. They comprise:

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

Flexicurity as an integrated policy approach addresses these issues at the same time.²² Flexicurity also implies a ‘unified’ strategy, meaning that all the components belong together and should be taken into account simultaneously, not selectively.²³

The crucial role of social partnership and social dialogue

Crucial preconditions for developing flexicurity and making it work are a supportive and productive social dialogue, mutual trust and highly developed industrial relations.²⁴

²¹ These four components were included in the January 2006 Annual Progress Report. The 2007 Joint Employment Report, adopted by the EPSCO Council in February 2007, refers to these components.

²² European Commission’s 2006 Annual Progress Report (25 January 2006, COM(2006) 30; pp. 19-20).

²³ See the Resolution of the European Confederation of Independent Trade Unions on “How we can reconcile flexibility and security on the labour market (‘Flexicurity Debate’)”. Brussels, 30 March, 2007, p. 6.

²⁴ In the words of the European Trade Union Confederation (‘The Flexicurity debate and the challenges for the trade union movement’, Brussels, March, 2007, p. 4): ‘The most essential part of flexicurity is the involvement of the social partners. They define the balance between flexibility and security, and in doing so legitimise and set the rules of the labour market. They need instruments that will allow them to anticipate change and to control the respect and implementation of both collective rights and individual pathways.’ (document available at http://www.etuc.org/IMG/pdf/Depliant_Flexicurity_EN.pdf). In the same vein, Mr P. de Buck, General Secretary of BUSINESSEUROPE, stated that [social partners] are best placed to find solutions reconciling economic and social needs of labour market players and devise concrete arrangements that benefit both companies and employees. In fact, decentralised decision-making which allows “central” matters to be decided by social partners at the national, sectoral or

Many aspects relating to flexicurity come under the competence and responsibility of the social partners. The participation of social partners and other stakeholders should be ensured in the development, monitoring and evaluation of policies — in order to create a common agenda and joint responsibility for change. Collective and company agreements can provide the conditions for modern work organisations, improving numerical (working hours, rosters) and functional flexibility within a secure context.

Flexicurity models are not coincidentally developed in those countries where the social partners have played an important role in finding the balance between flexibility and security on the labour market.²⁵ Social partners are often best placed to address the various needs for flexibility and security on the part of employers and workers, and to define the modalities of flexibility and security that are most appropriate for the national or sectoral situation, and in doing so legitimise the change and adaptation of the rules governing labour markets and work organisations. Mutual trust and highly developed industrial relations are important for achieving a high level of flexicurity. This is one of the reasons why good practices, such as the Danish model, cannot simply be copied to other countries.²⁶

However, even if a tradition of trust between governments and social partners is not strongly developed, it is still possible to create the conditions for agreement, by presenting balanced policy approaches containing perspectives for all stakeholders to emerge as winners. Such approaches have proved successful in countries such as Italy and Spain. That such win-win policies can also bolster the institutional position of social partners is demonstrated by the fact that the Nordic countries are characterised by very high levels of unionisation. Other cases, such as The Netherlands, have shown that unionisation can be strengthened by addressing the interests of ‘new’ groups of workers, such as women and the self-employed.

Evidently, public authorities also have a major role to play. They bear the prime responsibility for explaining to their societies why certain changes are necessary, and — provided they are taking place with proper accompanying measures and policies — can be beneficial in the long run. It is their role to define the right legal framework and to adopt a policy that promotes a partnership in which all partners are prepared to take responsibility for change. In other words, flexicurity is also about shared responsibility.²⁷

company level also enhances flexibility and facilitates adjustment to external shocks (speech at the Stakeholder Conference on Flexicurity, 20 April 2007).

²⁵ See also the Introduction by Mr John Monks, General Secretary of the European Trade Union Confederation, at the Stakeholder Conference on Flexicurity, organised by the European Commission on 20 April 2007 in Brussels. Available at: http://ec.europa.eu/employment_social/employment_strategy/pdf/flex_monks_en.pdf.

²⁶ See Algan, Y. and Cahuc, P. (2006), *Civic Attitudes and the Design of Labor Market Institutions: Which Countries Can Implement the Danish Flexicurity Model?* Bonn: IZA Working Paper IZA DP No 1928.

²⁷ See also the Report from the High Level Group chaired by Wim Kok, *Facing the challenge*. November 2004, p. 33.

6. On path dependence: not one way to Rome

A variety and diversity of welfare states has developed across Europe, as documented by many studies.²⁸ This variety is linked to historical choices leading to subsequent economic and social institutions. In a path-dependent process, ‘history matters’: it has a far-reaching impact, partly due to the cultural and value systems that underlie historical choices. Although a certain EU-led convergence of national policies can be recognised, different modalities of flexicurity or combinations of flexibility and security can be observed. To some extent, these modalities or varieties of flexicurity can be considered functional equivalents, the diversity lying in the national styles of regulation or regimes that have emerged over the years.²⁹

Thus, resulting from consultations and negotiations at national level, flexicurity can take different forms from country to country. In some cases, flexicurity will focus more on solutions within companies; in other cases, it will concentrate on transitions between jobs and from employer to employer. Sometimes it will focus more on the interplay between relatively flexible rules for economic dismissals and high benefits, whereas in other cases the emphasis will be on safe bridges from work to work organised by the social partners and public employment services (PES). The role of temporary work agencies, for example, will also differ from country to country.

The measures proposed aim to deal with historically grown situations and starting points. However, Member States’ choices as to which pathway(s) to take are not prejudged. Member States should assess their own situations and identify their own pathways. In this report, the focus is on identifying meaningful flexicurity pathways to cope with different labour market challenges, acknowledging the fact that a one-size-fits-all approach is not appropriate. Common principles of flexicurity actually require alternative pathways to do justice to the different starting positions, social realities and different needs among European countries. In the end, each country will, together with its relevant stakeholders, define its own specific pathway towards improved flexicurity.

²⁸ See Hall, P. and Soskice, D. (eds) (2001), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press, Introduction, p. 1. For further references see: Arts, W. and Gelissen, J. (2002), “Three worlds of welfare capitalism or more? A state-of-the-art report” *Journal of European Social Policy*, 12(2) 137-158; Esping-Andersen, G. (1990), *The Three Worlds of Welfare Capitalism*, Princeton: Princeton University Press; Esping-Andersen, G. (1999), *The Social Foundations of Post-industrial Economies*, Oxford: Oxford University Press; Lewis, J. (1992), “Gender and the Development of Welfare Regimes”, *Journal of European Social Policy* 3: 159-73; Sapir, A. (2005), ‘Globalisation and the Reform of European Social Models’, Brussels: *Bruegel Policy Brief*, 2005/1.

²⁹ The relevance of the flexicurity concept for various parts of the EU is underlined by a recent book publication from the ILO: S. Cazes and A. Nesporova, *Flexicurity. A relevant approach in Central and Eastern Europe*. Geneva: International Labour Office, 2007.

7. The wider context of flexicurity

It should be kept in mind and stressed that flexicurity pathways should be pursued in a wider context of sound macro- and micro-economic politics.³⁰ Flexicurity in itself is not a panacea. According to the revised OECD Jobs Strategy³¹ the interaction of macroeconomic policies with reform packages plays an important role in determining labour market performance. Flexible and open product markets enable firms to seize new opportunities, create and expand businesses, thereby creating jobs. Well-functioning and sustainable capital markets provide innovators and entrepreneurs with efficient access to finance, enabling them to fund new ideas and create new businesses in the economy, which again has a positive effect on levels of job creation and opportunities in the labour market.³²

Flexicurity also has to be embedded in the wider framework of labour market regulation and employment rights. This framework also encompasses rights such as representation and consultation, regulation of working conditions and non-discrimination.³³ Evidently these rights should also apply to all workers. This has been acknowledged by the European Commission, e.g. by not only promoting more but also better jobs and by linking its flexicurity policies to the Decent Work agenda as developed by the ILO.³⁴

The following chapter presents four pathways with a description of challenges they are intended to address. Each pathway consists of detailed policy suggestions within the four flexicurity components, together with the development of a supportive and productive social dialogue.

³⁰ See also: ETUC, The Flexicurity debate and the challenges for the trade union movement. Brussels: March 2007, p. 4.
³¹ <http://www.oecd.org/dataoecd/47/53/36889821.pdf>.

³² All these issues were underlined during the Hampton Court meeting of the European Council (27 October 2005).

³³ See also Giddens, A. (2007), *Europe in the Global Age*. Cambridge: Polity Press, p. 21.

³⁴ See the Communication from the Commission, Promoting decent work for all. The EU contribution to the implementation of the decent work agenda in the world. Brussels, 24 May 2006, COM(2006) 249. {SEC(2006) 643}. It states that (p. 2): “the decent work agenda (...) seeks not only to guarantee a minimum basis of rights but also to tailor development to values and principles of action and governance which combine economic competitiveness with social justice.” Cf. also the concept of quality of jobs, or gute Arbeit as it was put under the 2007 German Presidency of the EU.

8. Flexicurity challenges and pathways

Four major ideal/typical challenges can be identified in EU labour markets as starting points for enhanced flexicurity pathways. These challenges or concerns relate to four situations in the labour market. These situations should not be seen as mutually exclusive: in practice, more than one situation can be considered relevant to a stronger or lesser degree to a specific country.

1. Bifurcated, two-tier labour markets with a large share of so-called ‘outsiders’ lacking security and the opportunity to make the transition to more permanent employment, paralleled by strict regulation of open-ended contracts.

In a number of Member States, extensive employment protection systems (EPL) have developed over the years, particularly for regular workers (in the absence of comprehensive unemployment benefit systems). Open-ended contracts are seen as entry ports to broader societal opportunities and entitlements. By contrast, a high incidence of (involuntary) fixed-term and informal employment indicates that these opportunities are less attainable for large sections of the workforce. In such a situation, flexibility and security tend to be unequally distributed. Here, there is a need to reassess the protection of both insiders and outsiders on the labour market. In some cases, this is associated with below average employment performance, in particular regarding women, young people and older workers. Long-term unemployment represents a challenge. Labour market turnover is below average. Low job mobility is related to the fact that social protection and healthcare are linked to having an open-ended employment contract.

The social security system in this situation only partially covers persons working on temporary contracts. Benefit systems usually do not provide high levels of security. Income security provided by families is an important feature. The public employment services and benefit providers are not yet sufficiently capable of providing adequate ways (back) to employment. In some cases, social partners have reached agreements with governments about policy packages to modernise labour markets and address segmentation.

2. Labour markets characterised by relatively limited dynamism with a large share of workers with high job security, but lacking sufficient opportunities to find new employment in the event of redundancy.

Other Member States have focused strongly on flexibility within the company, such as flexible working hours, shift work, over-time and modernisation of work organisations, combined with relatively high levels of employment protection legislation. This historical path has been followed in the context of strong and large industrial firms. Flexible contracts, providing no or less job or income security, have emerged, mainly as an attempt to fight unemployment and to a certain extent at the cost of increased segmentation and gender segregation. Part-time employment is more widespread than fixed-term employment. Social security systems are characterised by fairly high benefits. Lifelong learning is developed within companies rather than outside companies.

In this labour market situation, functional flexibility within secure jobs is emphasised. Moves across enterprise boundaries are less frequent, which is increasingly problematic in the light of modern economic and labour market developments and the need to enhance adaptability. Employment performance needs boosting, notably regarding women, young people and older workers. Labour turnover is lower and long-term unemployment is on average higher than in some other types of countries. Productivity levels are high. As internal labour markets will not always be able to offer employment opportunities within the company, these groups of workers might, in addition, need transition security, i.e. the security, capacity and facility to make good and timely transitions into other jobs, should the necessity arise.

3. Labour markets that are sufficiently dynamic but faced with opportunity and skills gaps, which may curb productivity growth.

These labour markets experience problems due to relatively large numbers of low-skilled people possessing insufficient security in relatively flexible labour markets on which labour reallocation works more or less smoothly. For enterprises, this situation is also problematic because of problems in finding sufficiently skilled workers. The early and rapid development towards a service economy has triggered and facilitated this situation. Labour market turnover is relatively high. Labour markets are sufficiently dynamic, and the distinction between open-ended and temporary workers is not strongly pronounced. Labour market segmentation manifests itself in the distinction between low-paid and higher paid workers and in terms of skill levels and working hours (full-time/part-time).

Making transitions more rewarding for low-skilled workers, their employers and society as a whole would require joint action particularly in the area of training, skill development and lifelong learning. Ensuring that transitions lead to progress in terms of job quality and productivity is the major challenge, also because productivity rates and productivity growth are not high. In this labour market situation, employment outcomes are good, but improvements can be made in view of the relatively low rates of labour market participation among workers of immigrant descent and the overrepresentation of these groups in long-term benefit schemes. Addressing opportunity and skills gaps among the workforce is the main pathway to be followed here.

4. Labour markets offering insufficient opportunities to groups that are outside the formal labour market due to benefit dependence or involvement in informal work.

High numbers of (long-term) benefit recipients and informal workers are found in countries characterised by a far-reaching transition process towards a market-based economy. In the past, security used to be largely provided by the state and state-run companies. With respect to labour laws and contractual arrangements, this type of country focused on introducing contractual variety and is now confronted with segmentation. Tackling undeclared work is a major concern. Active labour market policies need to be further developed as labour force participation rates need to be improved. Insufficient levels of social protection, in particular for those outside the formal employment sector, are a source of segmentation.

In this situation, benefit systems do not provide very high replacement rates. However, social security systems often provide long-term benefits without frequent checks of availability or remaining work capacity. This may stimulate labour market exit and informal work rather than transition. Coverage of temporary workers should be improved. Facilities to combine work and care need to be further developed if female employment is to be brought back to satisfactory levels. A lifelong learning tradition has not yet fully developed.

Economic growth has accelerated, but to a significant extent in the form of jobless growth. Employment performance can be improved across the board. Long-term unemployment remains high. Productivity is relatively low. Combating benefit dependence and informal work is a key element in the pathway to be followed in dealing with this challenge.

Mapping out pathways

The pathways are mapped out below to address these four challenges. They help Member States in constructing and developing their own particular pathway. As not all Member States share exactly the same challenges nor are expected to take precisely the same steps, the pathways should be considered as indicative: it is up to the Member States to consider the relevance of all of the suggested flexicurity pathways to their own actual context and conditions. Consequently, the measures proposed in the pathways are presented as **options**: Member States can either choose from among them or combine them, as long as enhancing adaptability and combating labour market asymmetries is the perspective.

The pathways and steps that are mapped out focus on enhancing adaptability, for firms and workers, as well as on reducing asymmetries in the labour market and strengthening security. Each pathway starts with a general description, the steps are then presented in more detail across the four components of flexicurity and the role of social partnership and social dialogue is finally highlighted.

Pathway 1: Reduce asymmetries between non-standard and standard employment by integrating non-standard contracts fully into labour law, collective agreements, social security and life long learning, and consider making employment in standard contracts more attractive to firms

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

Pathway in more detail:

A. Ensure flexible and secure contractual arrangements

1. Reduce asymmetries between standard and non-standard contracts by integrating non-standard contracts — part-time work, fixed-term work, agency work, etc. — fully into labour law, collective agreements, social security and lifelong learning systems. These contracts would be treated as equal to standard contracts, following the principle of *pro rata temporis*.
2. Consider making standard contracts more attractive by introducing a unitary contract, based on ‘tenure track’. These contracts would be permanent contracts but specific elements of protection (on top of the basics) can be built up progressively as the working relationship continues. These may concern notification periods, the amount of severance pay and procedural aspects of dismissal protection. From the start, there should be an adequate though basic level of protection, under the law and/or collective agreements, which expands automatically and stepwise as the working relationship continues. At the same time, the (consecutive) use of fixed-term contracts should be limited³⁵ and undeclared work should be reduced as rapidly as possible, notably by increasing effective inspections.

³⁵ In line with the Framework Agreement, concluded by the European social partners, and the Council Directive on fixed-term employment (1999/70/EC).

3. Within firms: treat workers on temporary contracts on an equal footing with permanent staff, and allow them to benefit from training and other facilities provided by the enterprise in order to promote the internal and upward mobility of temporary workers.
4. Encourage the use of flexible working hours, working time accounts and self-rostering within companies to accommodate needs of enterprises and an increasingly diverse workforce.
5. Improve ‘combination security’ (security to combine work and family life) and support for women at all job levels and help them in meeting the flexibility demands required at higher levels of the labour market.
6. If the conditions mentioned in this pathway are in place, consider redesigning regulations with respect to economic dismissals to make them less bureaucratic and time-consuming and more transparent.

B. Upgrade active labour market policies to strengthen transition security

1. Build up effective active labour market policies, including effective job search follow-up. Invest in institutional build-up and ensure cooperation between public employment services, unemployment benefit authorities and local municipalities. Also use private actors, such as temporary work agencies, which — provided an appropriate regulatory and responsible framework is in place — can contribute to effective, tailor-made ALMP programmes that take into account the needs and wishes of individuals in order to foster sustainable labour market participation.³⁶

C. Introduce systematic lifelong learning

1. Strengthen incentives for workers and enterprises (including temporary work agencies) to enhance participation in lifelong learning by financial contributions provided e.g. in the form of tax credits to firms and workers. Facilitate the through-flow of workers within the ‘tenure track’ mentioned under A2 on the basis of the investment in training by both the employer and the workers. Promote the use of leave schemes for training.
2. Support the establishment by social partners of joint training funds at branch or regional level. Make sure that these funds are also accessible for temporary workers and that they allow for training for cross-sector mobility. At the same time, workers should be made more responsible for investing in a life-time career through their training efforts, e.g. by

³⁶ As argued in the 2003 *Jobs, Jobs, Jobs* report by the Employment Taskforce (p. 29), if temporary work agencies act as human capital managers, or in our words, as ‘transition agencies’, rather than as mere manpower suppliers, they can play the role of new intermediaries in the recruitment and management of both qualified and unqualified staff and thus contribute to increased job creation.

agreeing on this in individual employment contracts. Under-investment in training could be considered a breach of contract, for either of the parties.

D. Review and significantly strengthen social security provisions

1. Make benefits accessible for workers on temporary contracts and possibly the self-employed.
2. Consider the introduction of ‘experience rating’ for employers’ contributions to unemployment benefits, i.e. relate these contributions to the inflow of a company’s workers into the unemployment benefit system, notably for employers that use fixed-term contracts.
3. Introduce a national system of social assistance/welfare, offering comprehensive security rather than fragmented local initiatives as at present.

E. Develop a supportive and productive social dialogue

1. Trust between the social partners needs to be further reinforced and opportunities created for them to improve security for outsiders on the labour market while simultaneously enhancing companies’ adaptability.
2. Agreement between public authorities and social partners on balanced packages is possible provided governments take a strong lead. The scope of negotiations must be broad, in order to create enough room for policy packages serving various interests.

Pathway 2: Enhance companies' and workers' adaptability by developing and strengthening transition security

This pathway emphasises safe and successful job to job transitions. Built-in contractual guarantees and HRM policies should ensure timely progress into new jobs either within the company or outside the company once the necessity arises. Furthermore, it may be feasible to introduce individualised transition guarantees to redundant workers, to be borne jointly by employers, social partners and public employment services in order to prevent unemployment. A strong system of lifelong learning and vocational training, both inside and outside companies, allowing for quick access to effective training funds and facilities at branch level, should be the basis for productive labour market transitions. Within this pathway, strengthening *internal flexicurity* is also relevant, especially to strengthen the employability and skills of workers.

Pathway in more detail:

A. Ensure flexible and secure contractual arrangements

1. Introduce transition guarantees for redundant workers, to be borne jointly by employers, social partners and public employment services (PES). Persuade employers to put more emphasis on investment in the employability of the workers concerned, in order to allow for more timely adjustments by companies. Consider bringing together severance pay and the money now spent on administrative and court procedures into personalised or public transition funds or entitlements.
2. Social partners and regional institutions, including training institutions, should organise facilities for transition between enterprises. Temporary work agencies can play a role in the management of such systems. Given the institutionalised character of social partnership in this type of country this step could be taken rather quickly. When this is in place, offer transition guarantees to redundant workers.
3. Put more emphasis on proactive policies by enterprises to invest in the employability of their workforce.
4. Improve 'combination security' (security to combine work and family life) and support for women at all job levels and help them in meeting the flexibility demands required at higher levels of the labour market.
5. If the conditions mentioned in this pathway are in place, consider redesigning regulations with respect to economic dismissals to make them less bureaucratic and time-consuming and more transparent.

B. Upgrade active labour market policies to strengthen transition security

1. Active labour market policies should be made more relevant to the labour market with ALMP programmes better linked to the benefits and entitlements of benefit recipients, thus making policies more activating in a double sense.
2. Make public employment services focus more strongly on supporting timely job-to-job transitions, with contributions from the employers (see A1 and A2).

C. Introduce systematic lifelong learning

1. Strengthen the employability of workers through extended public support for continuing training and retraining. While general training is publicly financed, large parts of dual vocational training and continuing training are not. Training budgets tied to individual workers, irrespective of their workplace, could contribute to the development of a training market for the needs of workers rather than companies. This could also include the development of standardised training certificates.
2. The organisation of training funds along company and industry lines should be broadened in order to provide workers with the skills that could help them to move out of the company or the industry if the necessity arises.
3. At the same time, workers should be made more responsible for investing in a life-time career through their training efforts, e.g. by agreeing on this in individual employment contracts and by introducing bonuses and time accounts.
4. Introduce, either by law or collective agreements, entitlements to career guidance, employability scans and tax incentives for the accreditation of prior learning.
5. Introduce job rotation schemes, notably for older workers, to promote continued training, strengthen motivation and transition capacities and keep up productivity levels.
6. Provide trajectories, including training, for older workers to take on less demanding jobs and thus prevent early exit from the labour market.

D. Review and significantly strengthen social security provisions

1. Make benefits accessible to workers who have worked on non-standard contracts, and possibly the self-employed. Pension schemes should *not* be based on a pro rata principle as this would disfavour part-time work and work-life initiatives.

E. Develop a supportive and productive social dialogue

1. Although institutional social dialogue is generally well-developed within countries facing this labour market challenge, trust among social partners and between them and the government is in urgent need of reinforcement. Social partners are involved in all reforms but are sometimes consulted at (too) late a stage and/or do not feel the urge to deliver. Reform packages should include something attractive for each side of industry, to justify their making concessions on other issues. If agreement is not feasible, the government should assume responsibility itself, using other policy means to generate support.

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

This pathway recommends strengthening, on the basis of existing levels of labour market dynamism, investment in skills and R&D. The employment and security opportunities and options of specific groups in the labour market can thereby be enhanced and productivity growth boosted. A broad-ranging approach is needed to keep the labour market accessible to the low-skilled and other groups at risk of becoming long-term unemployed or excluded in other ways. Flexicurity will benefit from the possibility to conclude binding agreements at branch or regional level that combine provisions on how to address the flexibility needs of both employers and workers by investment in training. Where the institutional structures for such agreements are not yet in place, support from the social partners and government is needed.

Pathway in more detail:

A. Ensure flexible and secure contractual arrangements

1. Increase flexicurity within the enterprise; put more emphasis on proactive policies by enterprises to invest in the employability of their workforce.
2. Pay attention to those segments of the labour market, such as casual work, agency work, false self-employment, etc., that do not provide stepping stones toward better jobs and have insufficient protection and labour law coverage.
3. Limit the consecutive use of fixed-term contracts and temporary work agency assignments, clarify the employment status of agency work and address issues of unclear employment status in general.
4. Improve ‘combination security’ (security to combine work and family life) and support for women at all job levels and help them in meeting the flexibility demands required at higher levels of the labour market.

B. Upgrade active labour market policies to strengthen transition security

1. Strengthen targeted and tailor-made training within ALMPs to support upward mobility.
2. Develop cooperation between public employment services, enterprises and market partners such as temporary agencies to ensure upward transitions that actually improve workers' positions in terms of job quality, contractual conditions and pay.

C. Introduce systematic lifelong learning

1. Further raise the level of qualifications of school leavers.
2. Address literacy and numeracy problems among the adult population.
3. Pay special attention to people at risk while still at school, the potential early school-leavers. They can benefit from four types of measures: more timely intervention, more tailor-made approaches, a better infrastructure to support career guidance throughout the life course, and better combinations of working and training to avoid school drop-out.
4. Improve incentives for employers to invest in the skills of their workforce and for workers to participate in lifelong learning. Use income tax and social contribution revenues and personal budgets for this.
5. Support the establishment of joint training funds at branch or regional level. Make sure that these funds also allow for training for cross-sector mobility
6. Develop training targeted to the low-skilled. Introduce dual learning, i.e. a combination of studying/skills training and working, and other productive combinations of work and training, especially for the low-skilled. Recognise and validate informal learning and organise low-threshold, easy-access language and computer training inside and outside the workplace.
7. Facilitate individual learning accounts fiscally at national level.
8. Fight discrimination against and exclusion of migrants and promote their integration, as part of a two-way process, i.e. with efforts on the part of migrants as well as on the part of enterprises and authorities. Invest in their educational attainment and command of the national language.

D. Review and significantly strengthen social security provisions

1. Make sure that unemployment benefits, especially during the first months of unemployment, are at a decent level.
2. Ensure full coverage of temporary workers by the social security system.
3. More attention could be paid to the social security of self-employed or quasi-self-employed workers.
4. Reduce labour costs at the minimum level and compensate workers using tax credits.
5. Ensure that social security systems are accessible to flexible (e.g. seasonal or freelance) workers who currently may have problems meeting the eligibility requirements.

E. Develop a supportive and productive social dialogue

1. Flexicurity will benefit from the possibility to conclude binding agreements at branch or regional level that combine provisions on how to address the flexibility needs of employers and workers with investment in training in particular. Creating negotiating platforms at regional or branch level will probably require institutional investment by the social partners. This will only be feasible if bargaining at these levels is strongly supported by governments, e.g. by providing favourable financial conditions for the implementation of such agreements.
2. Where high trust and involvement among the social partners already has a longstanding tradition, be aware of the risk that trust might be eroding or becoming sub-optimal due to changing circumstances. Bring new issues into the social dialogue debate, such as R&D, social innovation, productivity, education and skills and sustainability.

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

This pathway starts from the urgent need to increase the employment and job opportunities of persons who are currently on social security benefits or working in the informal sector. Active labour market policies and social security should offer sufficient opportunities and incentives, in terms of increased conditionality of benefits, to return to work and to facilitate this transition. Long-term welfare dependence should thus be prevented. Informal work can be regularised by offering flexi-secure contracts, lower payroll taxes and a skills perspective for these sectors. By formalising informal economic activities, increased financial resources can be raised for building up a more comprehensive social security system. Stronger institutional capacity needs to be developed by stimulating the social partners to negotiate key elements of working conditions and by better cooperation between labour market and benefit institutions. Social dialogue can be further developed at sector and regional level and both bipartite and tripartite dialogue can be strengthened.

Pathway in more detail:

A. Ensure flexible and secure contractual arrangements

1. Increase internal flexicurity: allow and encourage collective bargaining to determine elements of working time, variable pay and skills requirements, notably for older workers. Social partners should use this scope to create synergies between (time and functional) flexibility and (combination) security.
2. Employers should take early action where workers are threatened with redundancy.
3. Support female labour participation by offering working-time flexibility in mainstream employment, develop part-time employment with equal treatment at all job levels, tackling the pay gap and improving the work-life balance, make sure that child care and support facilities are in place or restored, providing both parents with appropriate possibilities of combining work and care. Help women in meeting the flexibility demands required at higher levels of the labour market.
4. Ensure that flexible contractual arrangements are available that cater to the needs of firms and workers but at the same time integrate temporary contracts fully into labour law, collective agreements and social security and ensure equal treatment, following the principle of *pro rata temporis*. Initial entry into the labour market should be facilitated by lower costs and higher flexibility, while more security is built up gradually.
5. Regularise informal work while maintaining the scope for sufficiently flexible contractual arrangements. Gradually improve workers' rights and provide access to professional

training. Negotiate these issues with representatives from the branches concerned. Regulate the establishment of temporary agency firms that serve as bridges between the informal and the formal economy by offering decent pay and working conditions. Transitions to formal employment would also require further reforms to labour taxation and business registration requirements as well as the strengthening of labour inspectorates and financial institutions charged with combating informal work.

6. Make it possible for pensioners to work legally up to certain earning levels and/or hours while promoting adequate pension levels. Older employees could also benefit from partial retirement and partial employment in community service related to their previous jobs, e.g. older workers in industry could be trainers for apprentices in small businesses or teachers in lifelong learning facilities.

B. Upgrade active labour market policies to strengthen transition security

1. ALMPs should concentrate on the long-term unemployed, the disabled and workers threatened with dismissal.
2. Organise better cooperation between labour and benefit institutions, especially where they share a common target population (e.g. unemployed welfare recipients).
3. Address inactivity by gearing training to better meet labour market needs. More intense activation and training is required for the redeployment of older workers at risk of becoming long-term unemployed. Raise activation while unemployment benefits are being received.
4. Upgrade and modernise public employment services, e.g. by creating public-private partnerships, especially with temporary agencies. Provide better information on job opportunities, especially in media that are popular among the young (internet, job fairs, job clubs).

C. Introduce systematic lifelong learning

1. Develop a lifelong learning and vocational training system geared towards labour market needs, to prevent people becoming trapped in unemployment and low-paid employment with little opportunity for progress.
2. Redesign vocational and educational training. Combine private and public resources and better link resource allocation to education outcomes by saving resources currently spent on the immediate retraining of school leavers or trainees unable to find a job.
3. Stimulate company investment in lifelong learning to increase productivity rates. An obligation for employers to invest in their employees should be the focus of collective bargaining rather than a focus exclusively on job protection and wages.

4. Provide easy, cheap and open access to training in entrepreneurship skills in the education system; make this available to both young and older people.
5. Provide trajectories, including training, for older workers to take on less demanding jobs and thus prevent early exit from the labour market.

D. Review and significantly strengthen social security provisions

1. Limit payroll taxes to reduce informal work, while shifting some social expenditure to general taxation and improved tax collection. Formalise informal economic activities to increase the financial resources for building up a more comprehensive social security system. Allow social insurance contributions to be paid on an irregular basis, since many freelancers and self-employed do not receive regular incomes and this discourages them from legalising their economic activities.
2. Increase the levels of unemployment benefits to enable work-free job search during the first months of unemployment. However, monitoring of job search must be more effective and coupled with meaningful institutional support.
3. See to it that social security systems offer sufficient opportunities and incentives — *carrots and sticks* — in terms of increased conditionality of benefits, to return to work and facilitate this transition to work with ALMPs.
4. Create a system of social assistance. If lacking, provide universal health insurance, independent of the type of contractual arrangement.
5. Extend social security systems beyond company boundaries to make mobility easier. Stimulate professional and regional mobility for workers by making social security entitlements more portable and transferable, thus creating a more dynamic labour market.
6. Remove the obstacles to mobility, including housing and transportation problems.

E. Develop a supportive and productive social dialogue

1. Where social partners are not strongly institutionalised, increase their institutional capacity and involvement at central, sector and local levels by stimulating them to negotiate key elements of working conditions, including working time. Design other facilities that promote the creation of comprehensive employer and employee organisations and the cooperation or merging of fragmented organisations into larger bodies. Regional tripartite bodies could play a role in economic development.

9. Financial implications of flexicurity pathways

After having mapped out four flexicurity pathways, we now turn briefly to the financial and budgetary implications of some of the measures suggested within the various pathways.

Flexicurity-related reform packages are likely to have budgetary or financial implications for governments, social security funds, enterprises, and, possibly, workers as well. It has to be kept in mind, though, that by no means all measures imply major public investments. For example, it may be noted that the introduction of the Flexibility and Security Act in the Netherlands did not involve a high public cost (at the time of its introduction, the additional social security expenditure was estimated at around EUR 100 million) and the financial effects for business were considered to be positive.

The financial costs of flexicurity-related policies should be assessed against the direct budgetary benefits stemming from enhanced labour market dynamism, enjoyed by enterprises, and against the more general societal benefits in terms of enhanced competitiveness, employment and productivity. There is no doubt that investments do have to be made, in various degrees, by the governments, employers or workers themselves, but in the long run the benefits will almost certainly outweigh the costs as labour market participation will go up, (long-term) reliance on social security benefits will decrease and administrative costs can be reduced. From this perspective, it is essential that Member States engage in a broader debate on risk allocation and risk sharing and on the idea of mutual risk management.

1. Make contractual arrangements more flexible and secure

Measures to reduce asymmetries between open-ended and temporary contracts may entail some public costs if social security provisions are to be adapted to cover specific kinds of contracts not previously covered. They may also involve costs for business where they concern entitlements paid for by the employer, such as, for instance, rights to training or supplementary pensions. Of course, business also benefits from a better trained workforce and higher public acceptance of temporary work, which may reinforce labour market dynamism.

The introduction of a ‘tenure track’ approach to work contracts does not imply significant increases in public expenditure. It may entail some costs for enterprises when employees who would otherwise have continued to work on consecutive temporary contracts gradually enjoy an increased level of protection. Benefits for government budgets can be substantial to the extent that the tenure track approach stimulates easy entry into employment, and ‘automatic progress’ into more secure contractual relationships. This may increase employment and

reduce the risk of falling back into unemployment.

Where companies' adaptability is enhanced through external flexibility, employers could be expected to bear part of the financial responsibility for helping redundant workers find another job. This may take the form of a contribution to the individual worker, or of a contribution to be paid into the unemployment benefit system³⁷, in so far as this would not hinder job creation and the hiring of new staff. A substantial part of the financial resources now being spent on redundancies can be redirected to finance safe job transitions.

2. Upgrade active labour market policies to strengthen transition security

Strengthening active labour market policies is likely to imply increases in government expenditure. These policies are usually funded as a component of the unemployment benefit system (see below). In the ALMP literature, it is suggested that ALMPs do not become more effective simply by increasing total expenditure. Their effectiveness is partly dependent on the close interplay between 'carrots' and 'sticks' (i.e. the design of activation policies), the quality and labour market relevance of trajectories, a tailor-made approach to the individual's position and preferences, anti-discrimination policies, combination security, and dynamism on labour markets. In many countries, it would seem that ALMP expenditure in itself is high enough but its effectiveness needs to be increased.³⁸ In other countries, there is clearly a need for extra resources and thus increased budgetary expenditure (at least in the short run). Some countries having to make such investments under financially constrained conditions could be supported by EU funding, in particular by the European Social Fund.

3. Improve lifelong learning systems

Improved lifelong learning will require better but also more expenditure. The greatest proportion of training costs is currently borne by employers. The effectiveness of training expenditure could be increased by pooling resources at industry level. This would reduce disincentives faced by employers to invest in training resulting from the present risk of 'poaching'. In addition to the role of enterprises, public authorities may also stimulate lifelong learning, e.g. through tax deductions. In most countries, workers may also bear some of the costs, but not necessarily of a financial nature. A non-direct financial cost would be contributing their time.

³⁷ Cahuc, P. and Kramarz, F. (2004), *De la précarité à la mobilité: Vers une Sécurité sociale professionnelle*; Blanchard, O. and Tirole, J. (2004), *Protection de l'emploi et procédures de licenciement*; Boeri, T., Conde-Ruiz, I. Galasso, V. (2007), *The Political Economy of Flexicurity*, mimeo, Milan.

³⁸ See for example *Employment in Europe 2004*, chapter 2 'Key determinants of labour market performance'.

4. Review and significantly strengthen social security provisions

The main financial implications of flexicurity-related policies are likely to involve higher government expenditure on unemployment benefits and welfare assistance. Flexicurity proposals may call for improving the access and scope of unemployment benefits and welfare assistance. Flexicurity thus also requires good and timely labour market transitions, where necessary, to be complemented and supported by more universal income support and social protection. Unemployment benefits can be financed by:

- (1) general taxation (such as in Denmark),
- (2) social contributions by employers and workers or
- (3) some degree of 'own contribution' by the firing enterprise.

A financial contribution by the employer is one way of implementing the latter option, a system of 'experience rating', as operated in the US, is another.³⁹ In the US, somewhere between 1/3 and 2/3 of unemployment benefits are paid by the firing firm, with the rest spread evenly across all enterprises. Systems like experience rating, by putting a price on dismissals, run the risk of creating a disincentive for employers to hire people. This would be a reason to limit the share of unemployment benefit expenses financed through such systems. The largest share of the cost of the unemployment benefit system should be financed either through government budgets or through social contributions, evenly spread among enterprises.

In general, tax reforms could be an important step within flexicurity pathways. Lowering taxes on wages (to be offset by e.g. higher property taxes, green taxes or perhaps VAT) and negative income taxes could be ways of improving the integration of marginalised groups into the labour market. Reduced low-wage taxes could also limit the informal sector and thus integrate informal workers into mainstream employment.

³⁹ See Blanchard, O. (2006), 'Is there a viable European social and economic model?' Tilburg: *Tilburg University Van Lanschot Lecture*, 1 June 2006.

10. Brief conclusions and a flexicurity agenda

In this report, the argument for flexicurity policies has been based on the need for new kinds of labour market flexibility as well as for new forms of security that respond to the risks and insecurities of modern economies and labour markets arising from globalisation and demographic change. The trust of European citizens and companies in future employment opportunities, in the development of human capital, in decent work and labour market developments and in a supportive business climate and increased business potential needs to be further enhanced.

Common principles of flexicurity will provide Member States and the European Union with a common understanding of flexicurity and the challenges it aims to address. They will strongly underline the involvement of the EU in securing Europe's social and economic future. Because not only the specific challenges but also the starting positions of the Member States vary, practical solutions must reflect and respect this diversity, resulting from the way in which Member States' legal systems, labour market institutions and industrial relations have developed in the course of history. However, the need to deal with these challenges originates from a common value system, including welfare, equal opportunities, participation, solidarity and dignity, considered part of the bedrock of the EU.

A set of common principles can be linked to a set of alternative flexicurity pathways that take into account different labour market situations, acknowledging that a one-size-fits-all approach is not appropriate. In this report, four flexicurity challenges have been identified for typical labour market situations, dealing with the employment opportunities and securities of various categories of workers and the need to enhance the adaptability and productivity of businesses. Subsequently, four alternative flexicurity pathways have been mapped out across the four components of flexicurity thus distinguished — flexible and secure contractual arrangements, upgrading active labour market policies to strengthen transition security, systematic lifelong learning systems and modern social security systems — together with the need to develop a supportive and productive social dialogue.

The report outlines the various steps that Member States could take, identify with and discuss with relevant stakeholders, following a flexicurity path in their specific context, possibly also drawing inspiration from more than one specific pathway. The report pays special attention to the role of the social partners, as their role as pathfinders is seen as crucial in developing flexicurity pathways, negotiating the various modalities of flexicurity, and ensuring the necessary support for adaptation and change.

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

Finally, in this report we have stressed that flexicurity should be considered a positive sum game, as opposed to a zero or negative sum game where only one party wins. Flexicurity strategies should aim at win-win situations. They involve a reflexive process rather than a pre-determined outcome. This also implies that change and the sequencing of changes can be best designed as integrated and broad policy packages, as negotiated flexicurity. A general approach here could be the following four-stage flexicurity agenda, which could be relevant for all Member States:

1. The creation of a national awareness of the significant need for change and improvements — initiated and launched by the government at a high level, but seeking the commitment of the social partners towards greater flexicurity.
2. The formulation, within the social dialogue and tripartite consultations, of an overall, proactive and future-oriented national objective for adaptation and change, in broad terms, but still in the area of employment / unemployment / flexibility and security. All parties should attempt to ensure commitment within their organisations at sector and local levels.
3. The establishment of a platform for national dialogue between employers, workers and government and other parties (notably those addressing the specific interests of labour market outsiders⁴⁰), with the task of coming up with a comprehensive analysis of problems, challenges and possibilities, and formulating policy advice for solutions or the negotiation of a package of measures.
4. Deciding on an appropriate policy response. This stage includes considering, among other things, the adoption of an action plan — probably multi-annual — with concrete steps for implementing the policy advice, evidently adapted to the needs of the Member State, including monitoring instruments. Member States might be asked, under the European Employment Strategy, to report in their National Reform Programmes on the progress made and problems encountered. The EU could give support by facilitating the exchange of good practice, promoting peer reviews, providing adequate flexicurity indicators, etc. It

⁴⁰ Flexicurity should be considered a democratically negotiated system, see Social Platform, Social NGOs' Principles on Flexicurity. Brussels: October 2006.

is essential that the results of the process are made visible and communicated properly to all stakeholders. Here, the European Union can without doubt provide added value.⁴¹

There is more to say about the role of the European Union. In this report, typical pathways have been mapped out to support the development and further evolution of Member States' own flexicurity pathways and flexibility-security balances, i.e. within national borders. One key finding is that all Member States will have to design solutions that offer flexibility and security beyond company borders in order to facilitate good and timely labour market transitions and to reduce labour market segmentation. It is important to acknowledge that one of the next challenges on the policy agenda might be to further address flexicurity *across* national borders, in particular to assess whether workers that operate across national borders — a type of geographical and often also contractual flexibility — are not being disadvantaged in security terms.

To conclude: in our view, the flexicurity concept represents a historical opportunity to simultaneously take economic efficiency and social equity to a higher level in Europe, provided that flexicurity pathways take proper account of the various national contexts and histories. Flexibility can be a precondition for security and security can be a precondition for flexibility — these aspects should be seen as mutually reinforcing so as to ensure optimum adjustment to the challenges of globalisation and demographic change. In this respect, Europe might well be the only continent that is able to make this shift and turn pathways with hurdles into pathways with stepping-stones.

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See also the Address by Mr Philippe De Buck, Secretary General of BUSINESSEUROPE, at the Stakeholder Conference on Flexicurity, Brussels, 20 April 2007, where four roles for the EU are identified. (Available at http://ec.europa.eu/employment_social/employment_strategy/flex_stakeholderconference_en.htm.)

Annex

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