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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Towards Common Principles of Flexicurity:**

**More and better jobs through flexibility and security**

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## 1. THE CHALLENGES AND OPPORTUNITIES OF GLOBALISATION AND CHANGE

The way European citizens live and work is rapidly changing<sup>1</sup>. Four main reasons can be highlighted: European and international economic integration; the development of new technologies, particularly in the information and communication areas; the demographic ageing of European societies, together with still relatively low average employment rates and high long-term unemployment, which put at risk the sustainability of social protection systems; and the development of segmented labour markets in many countries<sup>2</sup> where both relatively protected and unprotected workers coexist ("insiders" and "outsiders").

Overall, globalisation is beneficial for growth and employment, but the change it brings requires rapid responses from enterprises and workers. Employment has been increasing in the EU and unemployment is declining steadily. There are positive developments to build upon, even if there are still 17 million unemployed in the EU (2007) and European economies still need restructuring. Adaptation requires a more flexible labour market combined with levels of security that address simultaneously the new needs of employers and employees. Europe must create more and better jobs, to manage change and new social risks. It must reduce segmented labour markets and precarious jobs, and promote sustained integration and accumulation of skills. Women, the young and migrants are already over-represented among labour market outsiders, and older workers face a number of difficulties keeping or finding a job<sup>3</sup>. Even those on open-ended contracts can feel threatened because, if they are made redundant, they face the same difficulties moving on to good quality jobs.

In order to achieve the Lisbon objectives of more and better jobs, new forms of flexibility and security are needed, for individuals and companies as well as for Member States and the Union. Individuals increasingly need employment security rather than job security, as fewer have the same job for life. Companies, especially SMEs, need to be able to adapt their workforce to changes in economic conditions. They should be able to recruit staff with a better skills match, who will be more productive and adaptable leading to greater innovation and competitiveness. However, Europe is not adjusting as well as it could to the shocks that are imposed on its economy. This may aggravate concerns related to outsourcing and relocation<sup>4</sup>, and increase income inequalities and gaps between skilled and unskilled workers<sup>5</sup>. The EU and its Member States need to progress further towards a dynamic, successful knowledge economy, spreading the benefits of prosperity more evenly across society. There must be more winners from the process of change and more upwards mobility. More "have-nots" must be transformed into "haves".

European citizens accept the need for adaptation and change. 76% of Europeans agree that lifetime jobs with the same employer are a thing of the past. 76% also consider that being able to change easily from one job to another is a useful asset to

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<sup>1</sup> BEPA (2007): Europe's Social Reality.

<sup>2</sup> European Commission, Employment in Europe 2004, Chapter 4.

<sup>3</sup> OECD (2006): Live longer, work longer. See also OECD (2007) Employment Outlook.

<sup>4</sup> BEPA (2006): EU competitiveness and industrial location.

<sup>5</sup> J. Hudson: Inequality and the Knowledge economy: Running or standstill?

find a job nowadays. 72% of people said work contracts should become more flexible to encourage job creation. Finally, 88% of citizens said that regular training improves one's job opportunities<sup>6</sup>.

The EU's overall policy response to the challenges and opportunities of globalisation is the renewed Lisbon Strategy for Growth and Jobs. The European Council called on the Member States "to develop more systematically in the National Reform Programmes comprehensive policy strategies to improve the adaptability of workers and enterprises". The Commission, jointly with Member States and Social Partners, was asked to "explore the development of a set of common principles on flexicurity", as a useful reference in achieving more open and responsive labour markets and more productive workplaces<sup>7</sup>.

## 2. AN INTEGRATED FLEXICURITY APPROACH

The rationale for an integrated flexicurity approach is the need to achieve the objectives of the renewed Lisbon Strategy<sup>8</sup>, in particular more and better jobs, and at the same time to modernise the European social models. This requires policies that address simultaneously the flexibility of labour markets, work organisation and labour relations, and security - employment security and social security.

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

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

### What is flexicurity?

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

Flexibility, on the one hand, is about successful moves ("transitions") during one's life course: from school to work, from one job to another, between unemployment or inactivity and work, and from work to retirement. It is not limited to more freedom

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<sup>6</sup> European Employment and Social Policy, Special Eurobarometer 261, October 2006.

<sup>7</sup> Presidency conclusions, European Council 23/24 March 2006 and 8 March 2007.

<sup>8</sup> Annual Progress Reports of January and December 2006: Guideline 21.

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

Thus, enterprises and workers can both benefit from flexibility *and* from security, e.g. from better work organisation<sup>9</sup>, from the upward mobility resulting from increased skills, from investment in training that pay off for enterprises while helping workers adapt to and accept change.

### The components of flexicurity

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

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

### How flexicurity works

Economic analysis<sup>10</sup> confirms that these four components can be mutually supportive, and improve employment (total as well as for women, youth and older workers), at-risk-of-poverty rates, and human capital.

Whereas some workers experience high flexibility and low security, others are in *contractual arrangements* which discourage or delay transfers. This is particularly the case with strict employment protection legislation (EPL) against economic

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<sup>9</sup> OECD (2006): Live longer, work longer.

<sup>10</sup> European Commission, Employment in Europe 2006, Chapter 2.

dismissal. According to analytical evidence<sup>11</sup>, strict EPL<sup>12</sup> reduces the numbers of dismissals but decreases the entry rate from unemployment into work. When deciding whether to recruit new staff, firms will take into account the likelihood that high dismissal costs will be incurred in the future. This is especially relevant for small enterprises. Analysis<sup>13</sup> also suggests that although the impact of strict EPL on total unemployment is limited, it can have a negative impact on those groups that are most likely to face problems of entry into the labour market, such as young people, women, older workers and the long-term unemployed. Women, for example, are more likely than men to move between working and not working, in particular when seeking to balance work and family life, and therefore are more affected by reduced recruitment caused by strict EPL. Strict EPL often encourages recourse to a range of temporary contracts with low protection - often held by women and young people – with limited progress into open-ended jobs<sup>14</sup>. The result is segmentation of the labour market which flexicurity seeks to address. EPL, of course, has also positive effects; in particular, it encourages enterprises to invest in training and promotes loyalty and higher productivity of employees.

*Comprehensive lifelong learning strategies* and better investment in human resources are necessary to respond to rapid change and innovation. This is an increasingly crucial factor both for the competitiveness of firms and the long-term employability of workers. High quality initial education, broad key competences and continuous investments in skills improve enterprises' opportunities to cope with economic change and workers' chances of staying employed or finding new employment. High participation in lifelong learning is positively associated with high employment and low (long-term) unemployment<sup>15</sup>. However, too often these investments are only benefiting the highly skilled<sup>16</sup>: those with the greatest need for learning, such as low-skilled workers, workers on temporary contracts, self-employed, and older workers, suffer most from underinvestment in training. Enterprises may be discouraged from investment in skills because trained staff may be recruited by other employers. Cost sharing, for example through funds at branch level, may partly address this problem. Inclusive lifelong learning strategies require the active involvement of governments, social partners, enterprises and individual workers.

*Modern social security systems* offering adequate unemployment benefits, as well as *active labour market policies*, are essential components providing income security and support during job changes. Good unemployment benefit systems are necessary to offset negative income consequences during job transfers, but they may have a negative effect on the intensity of job search activities and may reduce financial incentives to accept work. This can be largely offset by setting up efficient job search support and work incentives<sup>17</sup>, ensuring a balance between rights and obligations. Evidence suggests that direct job search assistance, such as job search courses and

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<sup>11</sup> OECD (2007) Employment Outlook, pages 69-72.

<sup>12</sup> The OECD assesses overall strictness of EPL. See for example OECD (2004): Employment Outlook.

<sup>13</sup> E.g. Algan and Cahuc (2004), Job Protection: the Macho Hypothesis, IZA DP no. 1192 and Nickell and Layard, (1999), Labour Market Institutions and Economic Performance, in: Ashenfelter and Card (Eds.), Handbook of Labour Economics.

<sup>14</sup> European Commission, Employment in Europe, 2004.

<sup>15</sup> Employment in Europe 2006: p. 108.

<sup>16</sup> OECD (2005): Promoting Adult Learning.

<sup>17</sup> OECD (2005): From unemployment to work.

job clubs, rank highly among the most effective measures to help the unemployed find a job<sup>18</sup>. Spending on active labour market policies is associated with lower aggregate unemployment<sup>19</sup>. The effectiveness of active labour market policies is positively related to less strict EPL<sup>20</sup>.

A successful flexicurity strategy has to balance carefully the income insurance function of the unemployment benefit system with an appropriate “activation” strategy designed to facilitate transitions into employment and boost career development. Empirical evidence suggests that workers feel better protected by adequate unemployment benefits than by strict protection against dismissal. Active labour market policies, too, have a positive effect on the feeling of security among workers<sup>21</sup>. When asked about their chances of finding new employment if made redundant, respondents react very differently across Europe. For example, French workers, with high EPL, rate their chances as very low while Danish workers, with moderate EPL, rate them as very high<sup>22</sup>. This illustrates that good unemployment benefits, effective active labour market policies and dynamic labour markets increase people's feeling of security.

### 3. FLEXICURITY POLICIES: THE EXPERIENCE OF MEMBER STATES

In recent years, the flexicurity debate has been inspired by favourable employment and socio-economic performances in certain Member States, as underlined by the OECD's restated Jobs Strategy<sup>23</sup>. The OECD characterises flexicurity broadly as follows: moderate EPL; high participation in lifelong learning; high spending on labour market policies (both passive and active); generous unemployment benefit systems balancing rights and duties; broad coverage of social security systems; and high trade union coverage. The socio-economic outcomes are characterised by high employment rates, low unemployment rates, and low relative poverty rates compared to the EU average. Work done in the OECD<sup>24</sup>, ILO<sup>25</sup> and the European Commission<sup>26</sup> indicates that flexicurity policies have contributed to those favourable outcomes.

In line with the Strategy for Growth and Jobs, flexicurity should be seen in a wider context. Sound and financially sustainable macro-economic and effective micro-economic policies, as well as open and competitive product, services and capital markets create an environment where firms can seize emerging opportunities, fund new commercial ideas and create jobs. Similarly, flexicurity must be complemented

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<sup>18</sup> Jochen Kluge, The Effectiveness of Active Labour Market Policy, IZA Discussion Paper, March 2007.

<sup>19</sup> OECD (2006): OECD Jobs Strategy: Lessons from a decade's experience.

<sup>20</sup> Jochen Kluge (See above).

<sup>21</sup> OECD (2004, see above) and Postel-Vinay and Saint-Martin (2004) 'Comment les salariés perçoivent-ils la protection de l'emploi?'.  
European Employment and Social Policy, Special Eurobarometer 261, p. 27.

<sup>22</sup> European Employment and Social Policy, Special Eurobarometer 261, p. 27.

<sup>23</sup> OECD (2006), Boosting Jobs and Incomes, Policy Lessons from Reassessing the OECD Jobs Strategy.

<sup>24</sup> Ibidem

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

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

by social policies aimed at the underprivileged and those furthest away from the labour market.

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

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

#### **4. FLEXICURITY AND SOCIAL DIALOGUE**

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

Experience shows that a partnership approach is best suited to develop a flexicurity policy. Obviously, it is up to the relevant stakeholders, as autonomous organisations, to decide for themselves how to participate in social dialogue on flexicurity policies.

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

#### **5. DEVELOPING COMMON PRINCIPLES OF FLEXICURITY**

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

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

The common principles could be:

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

They should also aim at a fair distribution of costs and benefits, especially between businesses, individuals and public budgets, with particular attention to the specific situation of SMEs. At the same time, effective flexicurity policies can contribute to such an overall objective.

## **6. FLEXICURITY PATHWAYS**

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

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

A number of broad, "typical" combinations and sequencings of the policy components of flexicurity can be identified, to help tackle the typical challenges that countries face on the way to flexicurity; these are called flexicurity pathways. The four typical pathways - and the challenges they seek to address - described in Annex I do not – and indeed cannot - reflect the concrete situation of any specific country. However, each pathway – or even a combination of them - addresses specific challenges that are pertinent to several Member States.

These pathways have been developed on the basis of the Member States' situations, and of the report of the Flexicurity Expert Group<sup>27</sup>.

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

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

## **7. THE FINANCIAL DIMENSION OF FLEXICURITY**

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

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<sup>27</sup> Flexicurity Pathways, report by Prof. Ton Wilthagen, rapporteur of the Flexicurity Expert Group, May 2007.

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

However, the financial costs of flexicurity should always be assessed against the budgetary benefits stemming from enhanced labour market dynamism, higher employment and productivity. One study<sup>28</sup> estimates that a 10% increase in ALMP spending per unemployed person reduces by 0.4% the unemployment rate. Early intervention cuts the long-term costs of unemployment, associated ill health and social exclusion<sup>29</sup>.

Improved lifelong learning will require a more efficient, and sometimes greater, use of public and private resources, but this should pay off in terms of more jobs and higher labour productivity. It has been estimated that individuals who undertake on-the-job vocational training earn on average 5% more than those who do not<sup>30</sup>. A significant proportion of on-the-job training costs is currently borne by employers and will continue to be so. In addition, public policies may also stimulate lifelong learning financed by individuals, e.g. through tax deductions. In most countries workers can also be made responsible for investments in lifelong learning and the taking up of current training offers. Therefore, workers may also bear some of the costs, for example by investing their time.

Strengthening active labour market policies may require new resources being concentrated on individualised and preventive policies. However, these policies do not become more effective simply by raising total spending. Their effectiveness depends on their quality and their labour market relevance, on being tailor-made, and on the effective combination between security and readiness to accept change and labour markets dynamism. Effective anti-discrimination policies also complement active labour market policies.

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

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<sup>28</sup> Bassani and Duval, "Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions", OECD WP n° 35, 2006.

<sup>29</sup> Iskra Beleva, Long-Term Unemployment as Social Exclusion, Human Development Report, UNDP 1997.

<sup>30</sup> De la Fuente and Ciccone, "Human capital in a global and knowledge-based economy", May 2002.

### *Financing flexicurity policies: the Community contribution*

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

## **8. NEXT STEPS: FLEXICURITY AND THE LISBON STRATEGY FOR GROWTH AND JOBS**

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

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

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

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

## ANNEX I FLEXICURITY PATHWAYS

### *Pathway 1: tackling contractual segmentation*

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

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

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

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

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

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

On lifelong learning, employers and public authorities should work together to improve training facilities for temporary workers. At present, these categories often do not receive training opportunities because the employer is not sure how long he or she will keep the worker. Training funds and training institutes at branch or regional level would be installed to

ensure that everybody can benefit from training. Incentives for workers and enterprises, including financial contributions and tax credits, would be strengthened to enhance participation.

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

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

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

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

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### ***Pathway 2: developing flexicurity within the enterprise and offering transition security.***

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

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

Benefits for citizens and society would accrue from enhanced mobility of workers between enterprises. Workers will be more inclined to take risks associated with job transfers if

benefits are adequate during transition periods and if prospects for new and better jobs are real.

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

Enterprises would be expected to forcefully step up their investments in lifelong learning and employability of their workforce. This would be done in a way that takes into account the diversity of enterprises and their size. Skills development programmes would offer personal training and career programmes to each employee. Such programmes would be seen as part of the employment contract, constituting a mutual obligation to do everything possible to meet the agreed skills requirements. Employability would also be made an issue of negotiation at enterprise or branch level. Collective agreements would set skills requirements for each relevant profession, provide training facilities needed to achieve these skills, and set time frames for workers to meet the requirements. In branches dominated by SMEs, cooperation at branch level would be helpful in creating effective human capital development policies.

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

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

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

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

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### ***Pathway 3: tackling skills and opportunity gaps among the workforce***

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

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

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

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

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

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

Social security systems would offer incentives to low-skilled benefit recipients and monitor the conditionality of such benefits in order to ensure that taking up work pays, if necessary by providing supplementary benefits or gradual phasing out of benefits. Thus, they would

contribute to avoiding problems of the working poor. They would also contribute to reducing non-wage labour costs of low-skilled workers.

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

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

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

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

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

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

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

redundancy. If these conditions are in place, there is less need to apply strict rules with respect to economic dismissals.

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

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

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

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

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

## ANNEX II EXAMPLES OF FLEXICURITY

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

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

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

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

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

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

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

## ANNEX III

### BACKGROUND INDICATORS RELEVANT FOR FLEXICURITY

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

#### **A. Flexible contractual arrangements**

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

#### **B. Comprehensive lifelong learning strategies**

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

#### **C. Effective active labour market policies**

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

#### **D. Modern social security systems**

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

#### **E. Labour market outcomes**

- Employment rate, total, for women, and for older workers (EUROSTAT)
- Youth unemployment ratio (15-24 years) (EUROSTAT)
- Long-term unemployment rate (EUROSTAT)
- Growth in labour productivity (EUROSTAT)

- Quality in work (under construction)
- At risk of poverty rates (EUROSTAT)