

## **Introductory paper for the informal ministerial meeting on flexi-curity in the Western Balkans to be held in ILO Geneva on 6 June 2006**

### ***1. Introduction***

This informal meeting of the Ministers responsible for employment and labour issues from the Western Balkan countries, as well as from Finland and Germany, the two countries which will hold the European Union Presidency in the next two half-years, has been organised jointly by the Ministry of Economics and Labour of Austria, which is currently presiding the EU, and the ILO, in close co-operation with the European Commission. It has two main objectives: (1) to discuss the key employment challenges currently facing the Western Balkan countries and the appropriate policy responses, in particular the relevance of the flexi-curity approach; and (2) to share with them the experience of the EU countries, and especially the new EU member states from Central and Eastern Europe that joined the EU in May 2004, concerning the application of labour market institutions and policies aimed at promoting a new balance between flexibility and security and improving labour market performance. The outcomes of the discussion could contribute to a strengthening of national labour market institutions and policies and thus help the countries build up their capacity in the prospect of their accession to the European Union.

### ***2. Employment challenges facing the Western Balkan countries***

After the period of steep economic decline resulting from the multiple effects of the transition crisis, combined in the case of the ex-Yugoslav countries with the break-up of old production and trade links within Yugoslavia and the direct or indirect impact of the armed conflicts, the national economies of the Western Balkan countries gradually recovered in the second half of the 1990s and accelerated their growth rates after 2000. A comparison of GDP and employment growth rates, however, reveals that this dynamic economic development has so far been jobless. This characteristic is not unique to the Western Balkans but is general throughout Central and South Eastern Europe, where only a handful of countries have just recently achieved a very modest increase in employment. The transition crisis was generally accompanied by massive job destruction. Job destruction slowed down in the subsequent period of economic boom combined with restructuring, privatisation and further downsizing of big enterprises and was only partially compensated by job creation in new, mostly small enterprises.

Job losses and depressed demand for additional labour resulted in a dramatic decline in labour market participation, on the one hand, and a sharp increase in open unemployment, on the other. The Western Balkan countries are thus suffering particularly badly from weak job creation, resulting in low employment rates and high unemployment. Moreover, unemployment has continued to grow since 2000, despite robust economic growth, and is revealing a particular weakness of their labour markets: many unemployed persons are jobless for extended periods and long-term unemployment (more than one year) has reached alarming levels.

Another important characteristic of the Western Balkan labour markets is high informality of employment, only partly reflected in the statistics, so that the actual economic activity of the population is higher than the labour statistics would indicate. Even though informal employment may improve the labour market situation in quantitative terms and provide an additional income to households, it is above all a precarious form of employment, with informal workers receiving no protection against any labour-related risks and no employment and income security. This labour market segment is thus fully flexible and unprotected.

However, even formal employment has become more flexible, owing to an increase in flexible forms of employment. Self-employment had increased steeply in the first years of transition but later stabilised, in line with economic recovery. The acceleration of economic growth after 2000 has even led in some countries to a decline in the proportion of own-account workers in total employment. In contrast, the incidence of fixed-term contracts is increasing, in particular for newly concluded contracts for young people and low-skilled workers, confining them to these often precarious high-turnover jobs while the majority of workers (although a declining proportion) enjoy jobs that are without limit of time and thus more stable and secure. Part-time employment remains very low not only among men but even among women, mainly because of lack of interest on the part of both employers and employees. This is different from the situation in the EU-15 countries and confirms that there is a tendency towards flexibilisation of employment in the Western Balkans but that it has not yet contributed to any substantial improvement of employment performance, despite the increasing precariousness of employment.

In order to react to new realities in the labour market and address serious emerging employment challenges, labour market institutions and policies have been significantly reformed in all the Central and South East European countries. A comparative analysis has shown that EPL in the Western Balkan countries is already quite liberal and very close to the EU and OECD averages. When EPL is broken down into regulation of permanent contracts, temporary contracts and collective dismissals, only regulation of temporary contracts is slightly more rigid, while EPL for permanent contracts is fairly liberal. However, a high degree of non-observance of legislation (relatively poor law enforcement) significantly reduces its ability to give effective protection to workers in employment.

Lower employment protection at the workplace through legislation can be complemented by effective collective bargaining. However, the role of the social partners in the bargaining process is still weak, partly because of a low level of co-ordination. In addition, trade union membership, coverage of workers by collective agreements and co-ordination inside national workers' organisations have substantially declined in all the Western Balkan countries, so that collective bargaining contributes little to improving employment security. The flexi-curity approach, as will be discussed in more detail later, advocates higher employment and income security, both at the workplace, through lifelong learning, and outside it, through an activation strategy. This activation strategy means facilitating redeployment of redundant workers through intensive job search assistance provided by public employment services, strengthening their employability and employment opportunities by provision of active labour market policies and decent income support through unemployment insurance. None of these institutions and policies, however, is

well equipped to deliver these services. Public employment services are still rather weak in terms of their staffing, equipment and financial resources in relation to the number of clients to be serviced, so that their activities tend to be passive, rather than intervening actively and efficiently in the national or local labour markets under their responsibility. The amount of funds devoted to labour market policies is very low as a percentage of GDP, despite high unemployment levels. Moreover, the share of these funds spent on active labour market programmes is even more limited, as passive labour market policies, considered as legal entitlements, absorb most of the available resources. Job-seekers therefore have little access to such programmes. Even so, income support in the event of unemployment is provided to only a tiny share of the registered unemployed, owing to strict eligibility rules, while the level of benefits as a percentage of the average wage is also low.

It can thus be concluded that increased flexibilisation of the labour markets of the Western Balkan countries has not been sufficiently compensated by stronger protection of workers affected by redundancy through better assistance for re-employment and decent income support. ILO research has shown that this flexibility/security imbalance may not only have an adverse social impact at the individual and household level but also adverse macroeconomic repercussions, in that it impedes labour reallocation and lowers labour productivity. The main challenge for the Western Balkan countries remains in the domain of promoting job creation through sound macroeconomic and investment policies conducive to employment. However, the role of labour market institutions and policies remains indispensable for improving the adaptability of enterprises and workers to changes in economic conditions, smoothing transitions between different labour market statuses for workers, improving the quality of labour supply and creating decent working conditions. The Western Balkan countries therefore need to accelerate reform of their labour market institutions and strengthen their employment and labour market policies with the aim of increasing their employment performance in general, formalising employment and improving the quality of jobs. This will help them better address the challenges of globalisation and improving the competitiveness of their economies and prepare for future EU accession.

### ***3. The main elements of the flexi-curity approach***

Policy-makers, including the social partners involved in discussions and advocacy on economic and social security systems, are facing the crucial challenge of determining the new forms of regulation that should accompany rapidly evolving labour markets in the context of the globalised economy. Globalisation and accelerated technological progress, by exposing larger and larger parts of national economies to intense competition, may call for greater flexibility to overcome what has often been characterised as the “sclerosis” of labour markets in Europe (i.e. allegedly strict employment protection legislation, strong union bargaining power, generous welfare systems and high labour taxation). However, increasing labour market flexibility does not on its own improve labour market efficiency: for example, the widespread deregulation policy that was promoted in Central and Eastern Europe throughout the 1990s did not improve labour market performance and even led to adverse effects on labour force participation, employment and labour reallocation in some countries (Cazes, Nesporova, 2003). Hence there is a need for new types of

institutions and policies in order to mobilise the European workforce, improve its employability and adaptability, and more generally improve the efficiency of the labour markets. In this context, the flexi-curity approach, which promotes a combination of flexible labour markets and a higher level of social security accompanied by active labour market policies, could provide an answer to the dilemma of how to maintain and improve competitiveness, while at the same time preserving an effective policy framework for social inclusion, and of how to make full use of the potential of social policy as a productive factor. For European policy-makers, flexi-curity has been increasingly seen as a way to preserve the European social model, which has its foundations in a shared commitment to economic prosperity, social cohesion and solidarity, health-care and education systems that are accessible to all, as well as a broad and reliable social welfare system and social dialogue.

Flexi-curity combines a more flexible labour market, in which hiring and firing rules are relatively flexible, with good social protection offering high income protection through a more generous unemployment benefit system, thus easing the transition from one job to another. In addition, flexi-curity promotes activation of labour market policies and training. The concept of flexi-curity stems originally from a Dutch law (*Wet Flexibiliteit en Zekerheid* dated 1999) that gives the prospect of permanent employment to temporary agency workers after two years of work and thus combines flexible assignment of staff with employment security. However, there is no one-size-fits-all flexi-curity model and different combinations of flexibility and security can be of service to both employers and workers in a context of national differences in tradition and culture but also variations in the structure of national economy and other factors. Although the balance can be delicate, it is the pursuit of so-called “win-win” strategies and results that lies at the heart of this concept. Flexi-curity policies can be observed in other national and international governance systems: in the EU Lisbon strategy and the ILO Global Employment Agenda, in the German debate on labour market flexibilisation, in the systems currently used in the Scandinavian countries, Belgium and Austria. In each country, a different emphasis has been put on the types of flexibilisation and security, as both are multi-dimensional concepts. In Denmark, for instance, there is a clear trade-off between a high level of external-numerical flexibility and a high level of income security. Danish workers have little protection against dismissal, but with income protection they have the security of being able to find a new job quickly, through wide access to training, mediation and reintegration. The Austrian approach has been characterised by a strong emphasis on active labour market policies, involving a shift from job security to employment security: there, employability of the workforce has become a crucial factor, to enhance flexibility through security. Moreover, the Austrian tradition of social partnership, which relies on a well-organised dialogue between the social partners, has smoothed the process of adaptation and helped promote the flexi-curity concept.

This suggests that it is never one institutional setting which on its own determines the question of job flexibility and security, but systemic interaction between the main national labour market institutions, such as the labour legislation, unemployment benefits schemes, ALMPs, the wage-setting institutions, etc. Policy makers, legislators and the social partners may all thus have wider policy choices at their disposal. These choices are based on various combinations of the different

components of the employment and social protection systems, which need to be identified in order to enhance flexibility and security, for both workers and employers. This new approach needs to be based on innovative and negotiated policies that contribute to strengthening labour market institutions and social dialogue mechanisms.

#### ***4. Questions for the Western Balkans (and Troika) Ministers and Social Partners***

- Would you agree with the assessment made in the paper of the major employment challenges facing your country?
- What evidence do you have of the need for labour market reforms addressing flexibility and/or security issues?
- What experience do you have with reforms that would improve the combination of flexibility and security?
- What experience has your country gained with regard to the interaction between different policy-making bodies and policy areas?
- What experience have you gained from co-operation with the social partners on labour market institutions and policies?
- What key elements should be strengthened in national macroeconomic policies, employment policies and labour market institutions in order better to address the flexi-curity challenges?