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**Security in labour markets:
Combining flexibility with security for
decent work**

Peter Auer
ILO

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Foreword

Trade liberalization, offshoring and technological advances entail more volatility in labour markets and imply that labour market risks of workers increase. They have thus to be adequately insured by new types of security outside the stable employment relationship. Flexicurity has become a buzzword describing such developments aiming at both labour market flexibility and security. The term drives the labour market policy agenda of the European Commission and is now becoming attractive as an alternative to “flexibility only” reform agendas in other parts of the world. This article describes definitional issues and shows that it seems indeed possible to have flexible labour markets and workers’ security if certain conditions are observed. It needs some investment in labour market policies and social rights, requires also balancing of employer and worker oriented flexibility, internal and external flexibility and, on the process side, a genuine social dialogue. Several configurations are possible and a cross-country analysis of selected EU member states shows that some countries have succeeded in organizing their labour markets in a manner that combines flexibility with security with beneficial effects on decent work.

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1. Introduction

When two elements of social and economic policy that are commonly seen as being linked in a trade-off manner (the more you have of one, the less you have of the other or vice versa), are presented as being complementary (you can have both in a sort of win-win arrangement) one has to be particularly careful that one is not in the presence of “spin”: a PR gimmick, or a word that in reality has a hidden agenda.

Flexi-curity is such an oxymoron that suggests that the two are possible at the same time. However, for many increasing flexibility in the labour market is synonymous with decreasing security in the labour market, because it might just mean a relaxation in the regulation of hiring and firing and in flexible forms of employment, such as fixed-term jobs, temporary agency jobs and other forms of “atypical” jobs yielding less security (Stanford and Vosko, 2003).¹ These developments towards contract forms that offer lesser employment security look indeed like proof of a trade-off between flexibility and security. An extreme variant of this discussion is the end-of-work debate (Rifkin and Heilbrunner, 1995) predicting that the (lifelong) salaried job is gone for good and that flexible jobs have already or at least will have soon displaced longer-term regular jobs.

However, for others flexibility is the panacea to reinvigorate European labour markets and bring about more growth and employment while reducing unemployment. This view became strong from the 1980s and has its origin in the Eurosclerosis debate that put European labour markets into an unfavourable position compared to the flexible US labour market. The debate lives on as can be seen from the IMF 2003 World Economic Outlook which predicts more growth and employment if Europe were to adapt US type of (very loose) labour market institutions (IMF, 2003). A more recent illustration is a chapter in the World Economic Outlook 2007, which assesses the impact of labour market regulations and policies on the labour share with the result that reforms in line with more flexibility (decreasing employment protection and unemployment benefit replacement rates) have a positive impact on the labour share. (IMF, 2007)

In these views both elements of labour market protection (employment protection AND social protection) are assumed to be negative for growth and employment, because they make much needed adjustments to globalization difficult (for a rather crude ranking of countries effectiveness in “employing worker’s” in the spirit of “deregulation is best” see the World Banks employing worker’s index, which is the labour market indicator among the doing business indicators (2007). A variant of this view is the insider-outsider theory that predicts that because of tight regulation protecting the insiders, the outsiders cannot enter the labour market and have to rely on social protection or atypical jobs (Lindbeck and Snower, 1988).

For a long time now we are facing two radically different views on the labour markets that result in opposition and stalemate in policy reform (or advances of the one or the other side, depending on the balance of power between the two sides of industry). On the academic level a debate on ideas along the lines of the opposition was also waged, but remained quite unfruitful and inconclusive (Auer, 2006).

¹ These authors argue that there is no problem with the term flexibility, as long as it concerns an efficient adaptation to change, but challenge the “neo-liberal” agenda for pursuing a particular kind of flexibility, which for workers can look as a “grim rigidity” (see Stanford and Vosko p. 11 ff.)

Meanwhile, globalization progressed through ever greater liberalization of trade, financial markets and foreign direct investments and an increase in migration, which brought new challenges to the labour markets. Also labour market reforms were undertaken, but they remained, according to Boeri (2005) or the OECD (2006) confined to the margins, for example, loosening regulations temporary work, but did not touch the protection of the core regular jobs, leaving opposing views on labour market functioning intact.

With the flexi-curity concept, a “third view” of the labour market was introduced that eventually would overcome the fundamental opposition as described above. Here flexibility and security are not opposed, but complementary and the transformation of the trade-off into a complementarity process through social dialogue. The work of the EU, such as the integrated guideline 21 or the chapter on flexi-curity in the Employment in Europe report 2006,² the consultation process around the Green-book on “modernization of labour law”, a Communication from the Commission of 2007 on “flexicurity” are examples of the efforts of the European Commission to anchor the concept in EU economic and social policy as one important pillar of the European social and economic model.

This is paralleled by efforts of the ILO to further conceptualize and implement decent work, with one stream of research attempting to integrate the concept of flexi-curity into the Decent Work Agenda and render the flexi-curity agenda, which is very much a European agenda, operational for developing countries also.

The remainder of this short paper is structured as follows: the first section is devoted to a discussion of some elements of the concept and analysis of the topic of flexi-curity as it appears in the report. The second section discusses the importance of internal flexibility, and a third, employment stability as the core of the employment system. The fourth section briefly addresses country differences and convergence or divergence in the EU, while the fifth section concludes with the issue of what looms beyond flexi-curity.

2. The concept

The chapter on flexicurity in the Employment in Europe 2006 (European Commission, 2006) offers some descriptive and analytical information on the topic. It rightly notes at the very beginning that flexibility and security are not contradictory, “but mutually supportive” for facing the challenges of globalization . Its elements (according to the definitions used by Wilthagen et al) are in the case of the flexibility dimension: external and internal numerical flexibility, functional flexibility, wage flexibility; and for the security dimension: job security, employment security/employability security, income security and combination security. The chapter asserts that these elements are seen as an analytical tool for comparing national labour market systems, an approach in line with EU policy (e.g. with Integrated Lisbon agenda guideline Nr. 21) and very similar to the transitional labour market approach (Gazier, 2003 and Schmid, 2002).

There is a second approach, which the chapter’s authors separate from the first and that is centred on the “Danish golden triangle”: The triangle’s points being

² Flexibility and security in the EU labour markets : the effects of labour market policies and “ flexicurity “ regimes. Chapter 2 of the Employment in Europe report, 2006.

constituted by loose employment protection legislation, a generous safety net for the unemployed and active labour market policies, which provide flexibility and security (Madsen, 2003).

While the first approach (Wilthagen, 1998, Schmid, 2002, Gazier 2003, and Auer and Gazier, 2006) appears to be broader than the second (Madsen, 2003), as it includes the internal flexibility part, both approaches are similar and somewhat in line with prevailing concepts of flexi-curity,³ which all – explicitly or implicitly- see a shift from security through stable employment relationships in firms and the public sector towards security by employment policy or new social rights outside the firms.

For example the recently published interim report of the Expert Group on Flexicurity, set up by the European Commission, states that the Commission and the Member States, drawing on experience of previous work, have reached a consensus on a definition of flexicurity which comprises four components:

- *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.
- *Active Labour Market Policies (ALMP)* which effectively helps 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. This includes provisions that help people combine work with private and family responsibilities, such as childcare.

As a process variable this definition includes:

- *Supportive and productive social dialogue*, mutual trust and highly developed industrial relations are crucial for introducing comprehensive flexi-curity policies covering these components.⁴

By and large this is also the definition adopted by the recent Communication of the EU Commission on “Common principles of flexicurity: more and better jobs through flexibility and security.” (EU Commission, 2007.) These elements seem indeed to be part of all the different ideas developed on the topic. And despite differences in the underlying analysis of labour market developments (e.g. do we have already enough/too much or rather not enough flexibility?) most observers share the view that globalisation and new technology has made labour demand more volatile and that this entails a (partial) shift towards security based on broader shoulders than that of stable employment contracts with a single firm. In the EU terminology this reads as: “the main thrust of the EU recommendation on flexi-curity is to encourage a shift from job security towards employment security” (page 8 of the chapter on Flexicurity in *Employment in Europe 2006*).

³ See for example the French discussion on ‘la sécurisation des parcours professionnels’ or a ‘sécurité sociale professionnelle’ or the ILO discussion on ‘protected mobility’.

⁴ www.ose.be/files/RECOWE/DIAC/InterimRepFlexisecurityApril2007.pdf

3. From job to employment security and beyond

But is it accurate to describe the shift in these terms? In the terminology of the former generation of labour economists and members of the industrial relations school (for example the internal labour market “school” – Doeringer et Piore, 1971) job and employment security, were related as follows: job security would be something like task security, the security of performing a specific task (or a narrow family of tasks loosely related) with a specific skill, like welder or suchlike. The internal labour market, which was characterized by many job classifications, was also related to the external labour market via the unemployment benefit system. For example, in economic downturns in the USA, firms used “temporary lay-offs”,⁵ whereby temporarily dismissed workers would receive unemployment benefits for a while and when the business cycle improved, be recalled by their firm to the same job and according to strict rules of seniority.⁶ This was a complicated and rather inflexible system: job classification proved to be inflexible in regards to new needs of polyvalence and multi-skilling with new types of goods and service production. Accordingly the job security rule was either abandoned or at least significantly reduced and often replaced by employment security that guaranteed employment with the firm, but not on any particular job. This went together with a dramatic reduction in the number job classifications, a certain shift from qualification to competence, more polyvalence and new forms of work organization allowing for much more internal flexibility.

The rather rigid system of job-cum-employment security existed also in many European labour markets and, for example, the Italian workers’ statute of the 1970s was (in)famous for associating both job and employment security that forbade both internal and external flexibility. In the 1980s, the Japanese internal labour markets were the model for (internal) flexibility because there was not much job, but much employment security. From this time dates the idea that there is a trade-off between internal and external flexibility, or between job and employment security: the elements of the trade-off were security of employment traded with the capacity to adapt quickly through changes in the internal organization of work, often in conjunction with changes in working time and job changes.

The shift from job to employment security was therefore formerly seen as a shift from an internally rigid system towards a more internally flexible system that however maintained employment security and long-term jobs with one company.

The novelty in the present shift seems therefore to be one beyond the traditional form of employment security: emerging is a new combined security (some degree of employment security within (several) firms going together with social protection – often in the form of labour market policies - outside the firms) which covers both (some) employment security and security in transitions. This shift should then rather be called from job to labour market security than from job to employment security. Seen from an individual point of view this corresponds with what some call securing of professional trajectories, transitional labour markets etc., which assumes

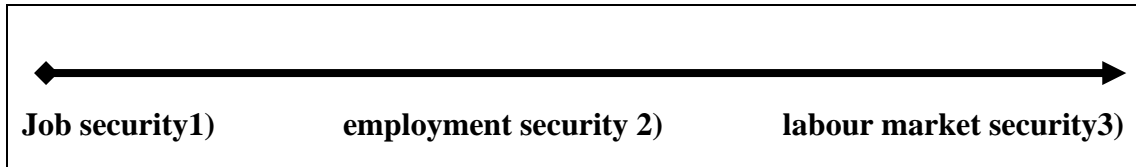
⁵ And also permanent lay-offs, which today seem to form an increasing part of lay-offs.

⁶ Last in/first out for dismissals and first in for those last out (the most senior) for recall.

protection during the professional career of an individual on the labour market, whether in employment or not⁷.

The graph below illustrates the shift schematically along a time axis.⁸

Figure 1: From Job to labour market security



- 1) Protection of a specific job/task
- 2) Protection of employment but multiple jobs/tasks
- 3) Protection of employment +labour market policies+social rights

This shift concerns in particular external forms of adjustments, transitions from one firm to another or also shifts between employment status (to and from unemployment, to and from training, to and from parental leave, etc.). And, while the shift represents one of the forms the model, the other forms might still survive. There is still some job security⁹ and employment security is at the core of any labour market protection. So the shift does not equal with substitution, but over time the one or the other form becomes dominant.

4. Internal and external adjustments

There are also internal forms of adjustment, but this point is not further deepened in the chapter. Because they are indeed important for flexi-curity, as they sometimes compensate for missing external forms of adjustment, especially in some of the bigger countries like Germany, we will discuss them shortly here.

Schematically the possibilities of the private and public sector to arrange for flexibility are shown in figure 2:

Figure 2: Configurations of flexibility

	Numerical Flexibility	Functional Flexibility
External Flexibility	Hiring/firing Temporary jobs (including temporary agencies)	Outsourcing/insourcing
Internal Flexibility	Working time reductions/prolongations	Work organization changes Polyvalent skills Working time arrangements (shift work, etc.)

⁷ The term labour market security employed here is not the same as in ILO (2004) where it describes “a high level of access to reasonable income-earning activities” (p.131 ff) as we use it to describe the regulations and policies that provide labour market security.

⁸ All systems along the time line fit specific configurations of the education and training system and of industrial and work organization.

⁹ For example the German “Aenderungskündigung” (termination for variation of contract) applies in cases where employees change jobs and working conditions internally, without being dismissed.

Wage flexibility, which is an important lever for providing cost flexibility, is excluded from the scheme.¹⁰ Most forms of flexibility above also have labour cost implications and there are more “concession bargaining” types of flexibility introduced today (e.g. part-time arrangements with pro-rata wage cuts instead of dismissal). However, internal flexibility is not only used as an emergency measure when job cuts loom, but as a preventive approach for triggering more productivity and maintaining the employment relationship.

As shown above firms have a choice between internal and external types of adjustment. However, from the literature we know that such choices are “framed” by labour market institutions and by customs and practice. Such practices concern for example a preference for wage flexibility through the variation of the flexible part of the wages (bonus) rather than for dismissals in Japan. Also in Germany internal forms of adjustment –mostly a variation in working time - are preferred to external ones, and are also supported by such schemes as short-time work – Kurzarbeit. Recent research based on the enterprise panel of the Institute for Work and Training (IAB) shows that around 80 per cent of all adjustments to variations in the business cycle of German firms are internal, with slight variations according to sector and firm size. While big firms use external forms of adjustment more than smaller firms (24.3 per cent), they use mostly temporary work arrangements. Small firms also mainly adjust internally (79 per cent internal) but when using external forms, very often fire (and hire) workers (15.3 per cent) (Hohendanner and Bellman, 2006). In the US, on the other hand, external numerical flexibility (lay-offs) is the preferred option (Abraham and Housman, 1995).

An important question in the debate is also whether one can balance the flexibility needs of individuals, stemming from their individual choices (for parenting, training, time-off, etc.) and the needs of the employers for efficient operation of their business. Both determine the balance of stability/flexibility and security. The good news is that preliminary research has shown that in flexi-curity countries employer-oriented and worker-oriented flexibility are complementary, while in the countries which either have opted for much flexibility or on the contrary for much stability, there seems to be a trade-off between the two.

¹⁰ Wage flexibility is important as the price for labour is the main employment adjustment lever in economic theory. Theory also says that in countries with wage flexibility, external shocks would lead to wage inequality but not to unemployment whereas when wages are ‘sticky’, unemployment would result.

Figure 3 :Enterprise-and worker oriented flexibility in Europe

	High degree of worker oriented flexi**	Low degree of worker oriented flexi
High degree of enterprise oriented flexi*	NL (3,1), SWE, DK, FIN, DE (6,5) BE, IE	UK (1,8)
Low degree of enterprise oriented flexi	↑ [A(10,7)]	PT (15,15), LUX, ES, EL, IT, FR

*PT work, atypical working time, telework, telecooperation, dismissal protection, involuntary temp jobs, MbO, enterprise training; ** Voluntary PT, decision rights over WT, hometelework, possibilities for telework, perceived job security, tenure, decision making, lifelong learning. Ranks from 1 to 15 on each of the 8 Indicators. High complementarity between both forms of flexibility. In brackets enterprise oriented flexibility and worker oriented flexibility ranks of countries

Source: Gareis/Korte: ICTs and the Adaptability of Work arrangements in the EU- update 2002, empirica, Bonn.

5. Employment stability

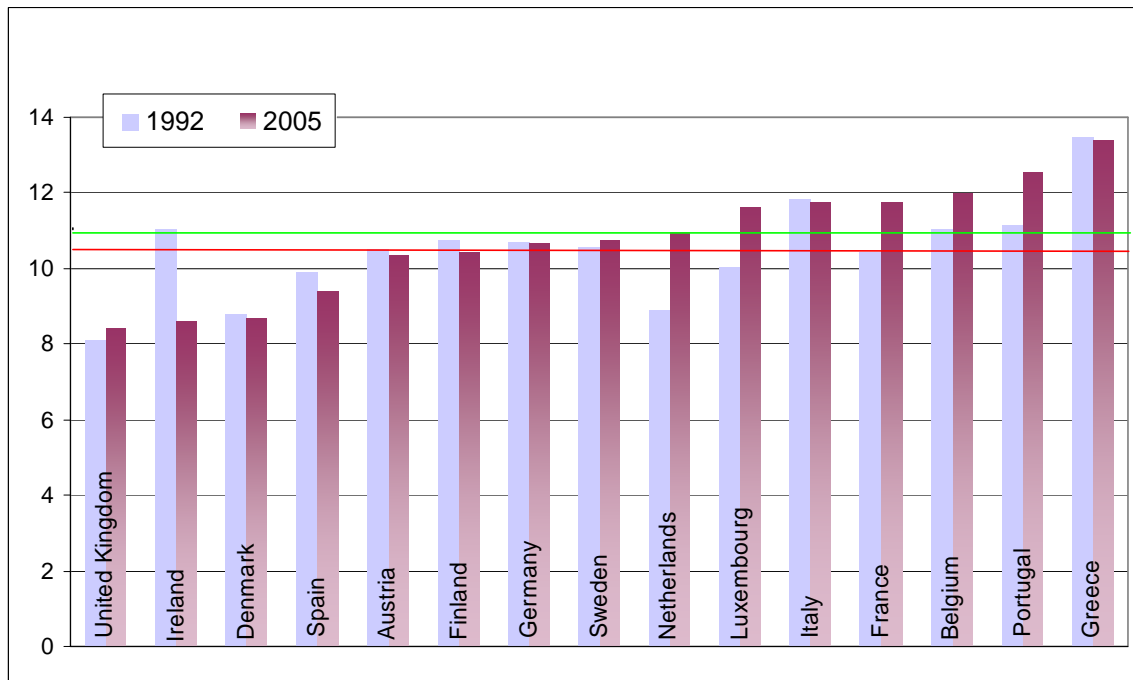
The maintenance of employment stability in many European countries (see graph below) might be due to the possibilities of internal forms of adjustment (as a trade-off between internal and external forms would suggest) but no conclusive study is available on this point. There seems to be also large country variation as Capelli and Neumark (2004) report from the US that efficient firms use all kinds of adjustments available. There is also a relationship between employment protection legislation, labour market policies and the forms of adjustment. Further work on these questions is recommended.

The empirical observation that employment stability overall is maintained in Europe¹¹ is in itself remarkable if compared with the fears that all stability is gone and the long-term job belongs to the past which is both a popular perception and an academic speculation (Rifkin and Heilbrunner, 1995; Beck, 2000). Many studies have looked at the stability argument from different angles recently¹² and most reach the same conclusion: despite the perception that employment relationships became volatile and that globalization deals a fatal blow to the long-term job, it seems to survive well. Employment is more stable than usually assumed and in 2005 on average around 41 per cent of all Europeans have been more than 10 years with their present employer, about the same share (but higher in absolute numbers) as in 1992.

¹¹ Which is confirmed for the period 1999-2003 also for the new member countries (except Poland) on a slightly lower level on average then for the EU 15 (Cazes and Nesporova, forthcoming)

¹² To name just a few: T. Korpi and M. Fahlin (2006) have analysed the impact of globalization on (mostly men's) mobility in Sweden and found that tenure has indeed increased and not decreased, Knuth and Erlinghagen (2004) have looked at labour market attachment of two different cohorts and have found, contrary to expectations, that the younger cohort had remained slightly longer in employment than the older cohort. Even in the US a recent study (Stevens, 2005) looked at cohorts of men leaving the labour market and found that between the leavers of 1962 and of 2002 there was at no difference in regard to the duration of their employment tenure.

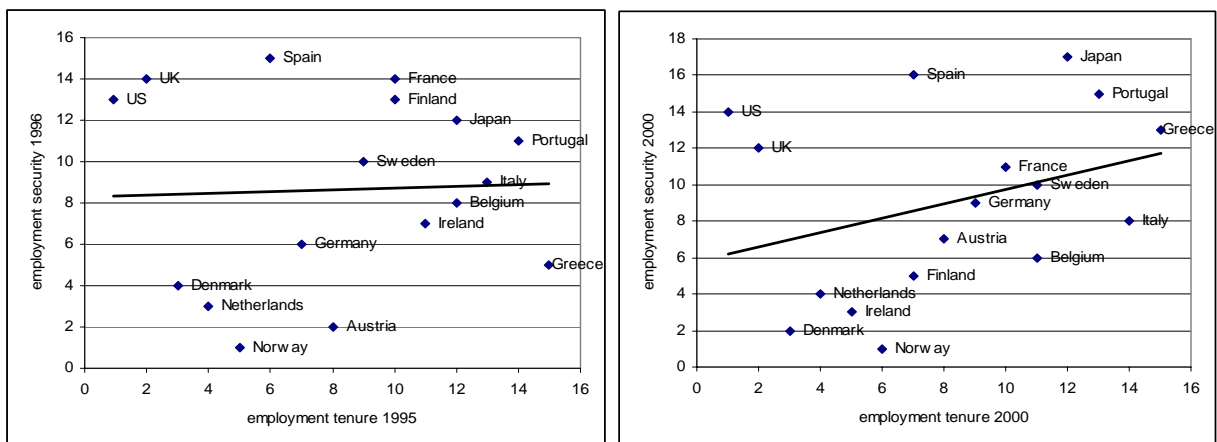
Figure 4: Average employment tenure EU 15 / 1992 and 2005



EU unweighted average was 10.74 in 2005 up from 10.48 in 1992. Source, Auer 2006, Eurostat

While there are many changes (like declining tenure for men, compensated by rising tenure for women), the fact that overall stability in employment systems is maintained needs further attention from those researching flexi-curcity. One axis of research should be on the effects of employment stability for the economy and the labour market. ILO research has found a paradox that confirms observations coming from the OECD (2004) and other researchers (Clarc and Postel-Vinay, 2005), cited also in the chapter on flexi-curcity of the EU’s Employment in Europe report 2006. If the length of tenure is an expression of better “objective” employment security, it does not apparently result in better “subjective” (perceived) employment security. Clarc and Postel-Vinay qualify this finding by adding that the negative relationship only concerns the private sector but not the public sector: in the latter the relationship is positive, and objective and subjective employment security coincide.

Figure 5: Employment insecurity and tenure 1996 (left) and 2000 (right)



Note: Coefficients are not significant (in both graphs the country ranks are shown: Security 1= highest share of employed with perceived security; Tenure 1= lowest tenure).

Source: Data supplied by International Survey Research, OECD, Eurostat and national sources.

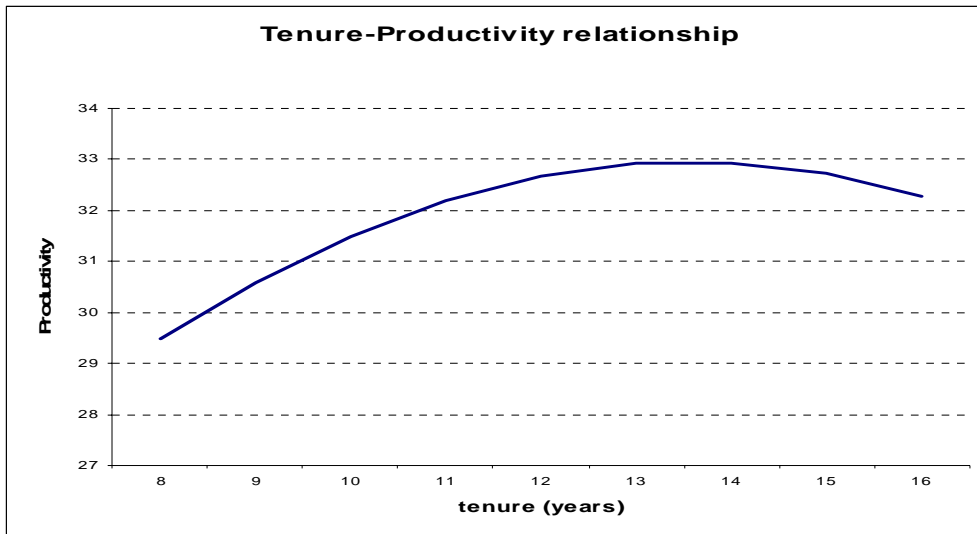
There are many hypothetical reasons for the paradox, one being that in today's constantly changing and adapting economy and labour markets, seeing mergers and acquisitions, firm demise and creation, press announcements of mass lay-offs, relatively high unemployment rates in some countries, etc., even holding a long-term job does not trigger a feeling of security. In fact elapsed tenure, which is a good objective predictor of future tenure (Farber, 1998) seems not to be a good predictor of subjective employment security. A case in point is Japan, which has one of the highest ranks in elapsed average tenure but also the highest share of people feeling insecure about their future employment tenure. Security perceptions vary also with the business cycle.

However, the incongruence between objective and subjective measures of security should not be interpreted as indicating that stable jobs are not important for workers' security. One cannot imagine an absence of stable jobs and a total shift of security towards public unemployment and employment schemes; only a new balance with somewhat more of the latter and somewhat less of the former is imaginable. Furthermore, subjective indicators are probably biased and the type of question posed, as well as its context is important. The relationship found is based on aggregate country data comparisons, which are analytically weak and some of the relationships found are statistically not significant, so much more research is needed to establish a robust link between objective and subjective data. So far one can only conclude that maximizing of employment protection seems not to be the way to maximize workers' perceived security and that it needs more than tenure in order to match objective and subjective employment security.

When the relationship between tenure and productivity is considered, we face another paradox if we assume that high mobility, flexibility expressed in low tenure is unequivocally positive for productivity as the US-Europe comparison suggests.¹³ In an econometric study we found a positive relationship (an empirical optimum between tenure and productivity was in the range of 14 years of tenure for an aggregate of 13 European countries during 1992-2002). Such an increasing return for long tenure, decreasing only for very long tenure but also for short tenure is also confirmed on the micro level and bears out former microeconomic and human capital literature, which stated that it needs tenure to recoup training costs. The fact that many firms search to retain their (skilled) workers, rather than lay them off, could be another indication of the beneficial effects of tenure/stability.

¹³ Those claiming for more flexibility expect of course a benefit for both productivity and the labour market (see for example IMF 2003, the prediction of the model that assumes that the Euro area would adopt US type labour market and product regulation would result in a 3.25 percentage point fall in the unemployment rate and a 5.25 percentage increase in the GDP). However, while US productivity is superior to European values since 1995, European values were higher before. Productivity is particularly higher in the ITC using sector in the US and the difference can be explained mainly by the gap in sectors like retail and wholesale trade and real estate and finance. The reason for the productivity gap seems rather due to the greater innovative capacity of the US economy and the much better link between innovation and commercialisation of innovations.

Figure 6: Relationship between tenure and productivity



Data are from Eurostat for the period 1992-2002, Productivity = output per hour in EUROS; Tenure= average tenure in years.

Source: Auer, Berg and Coulibaly, 2005.

It is important to keep in mind, however, that this finding, based on an econometric model, is the *average* tenure for the 13 European countries between 1992 and 2002. Per sector or country, these estimates would vary; but more importantly at the individual level, it cannot be stated that this represents the appropriate length of time to retain a worker. In other words, while an “optimum tenure” may exist, when that point is cannot be stated precisely. It is merely evident from the empirical exercises that in general, short tenure (less than one year) and long tenure (particularly above 15 and 20 years) can have negative productivity effects.

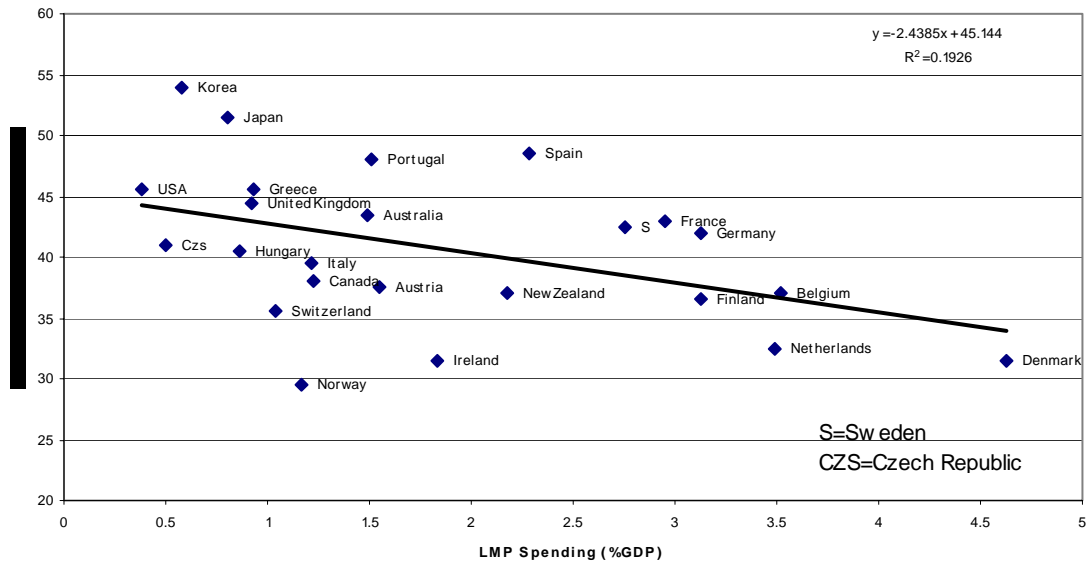
But the series of paradoxes would not be complete if we could not add, that in terms of labour market performance, we acknowledge a positive relationship between labour market flexibility and labour market performance (see table 1 in the annex), that extends to a certain degree also to productivity.

A shortcut intermediary conclusion would be that one needs both stability and flexibility in labour markets for productivity and employment and that there is a balance to be sought between both.

6. The solution to the paradox: flexi-curity?

To further complicate the story, in both the ILO and OECD research cited, and in the present report, the positive relationship between (expenditure on) labour market policies (both active and passive) and worker's perceived employment security is highlighted. There is ample empirical evidence that the flexible countries, with medium degrees of employment protection but ample protection by labour market policies do better in terms of decent jobs. This result underpins concepts of flexi-curity as it suggests that a certain degree of mobility, when "protected" is desirable for worker's security and delivers better results than either "unprotected" mobility or too much employment stability. Again this is based on country comparison rather than in-depth analysis on a country by country basis.

Figure 7: Job insecurity and Labour Market Policies, 2000



Note: Job insecurity is the average percentage among two indicators: 1) workers worried about the future of their company and 2) those unsure of a job with their company even if they perform well. Source: Data on job insecurity from International Survey research, cited in OECD, 2001; Data for LMP spending from OECD, 2004. (Data for Ireland from 2001.)

Source: Auer, 2006

In fact all these apparent paradoxes might be solved if one intelligently designs labour market reforms that take into account the need for stability, flexibility and security, which should be the case for all concepts of flexi-curity. Omitting one of these elements – and also the social dialogue on the process side - will produce suboptimal results either for productivity, employment performance or workers' security.

7. Country differences

It appears from the analysis of the chapter on flexi-curity of the EU Employment in Europe 2006 report, as well as from other work of academia and international organizations, including the ILO, that certain changes are necessary in order to modernize labour market institutions to withstand the challenges of globalization, without jeopardizing productivity competitiveness and workers' welfare.

While there are differences in the approaches, all analysts found clusters of countries that performed fairly well on these socio-economic dimensions and it appears that the countries selected link security and flexibility in a complementary way and use social dialogue to coordinate bargaining over possible trade-offs. These countries then seem to have it all: good economic and labour market performance, good worker welfare as witnessed by a reasonable amount of decent jobs, low poverty rates and low income inequality. A caveat applies however: country clustering is a heroic task and variation between countries in a given cluster remains important: e.g. if we compare Sweden and Denmark (both belonging to the successful Nordic countries) in terms of EPL and tenure, we see quite different organization of the labour market: Sweden has high EPL (employment protection legislation) and tenure (10.5 years in average) and Denmark shows low values on both counts (tenure of 8.4 years) with both countries showing high spending on LMP. The same holds true for a pair-wise comparison between Denmark and the Netherlands: tenure has much increased in the Netherlands (from 8.5 in 1992 to 10.7 in 2005), but has slightly decreased in Denmark. Again spending on LMPs (Labour Market Policies) is substantive in both countries. So in fact, the combinations between employment protection and social protection are quite different in these best practice countries of flexi-curity.

8. Conclusions

This leads us with others to be prudent in proposing a particular model as a reference for reforms: there is much idiosyncrasy in different "models" which are all "home grown" and have developed over years in their particular institutions with their particular agents. One has to suggest many ways to Rome and no one-size-fits-all solution. The best one can do is to propose some common elements:

- Medium-level employment protection through innovative employment contracts
- high social protection by activated LMPs
- social rights such as maternity, parental and training leave, possibilities to shift between part-and full-time work, etc.¹⁴
- complementarity between worker and firm oriented flexibility
- high degree of internal flexibility in high performance work systems
- effective social dialogue

If these principles are observed and the various interactions between these elements are exploited for economic and social performance,¹⁵ "in-employment flexi-

¹⁴ They have an impact on flexibility and security as they link possibilities for temporary exit from the labour market (flexibility) with return options (security).

curity” combined with “out-of-employment flexi-curity” can result in what we termed labour market security at the beginning of this article. Developing, maintaining and enhancing such a system implies also a functioning social dialogue that allows the two sides of industry and the government to bargain over possible trade-offs, responsibilities and costs of the system.

Indeed the setting up of a system that shifts some of the adjustment costs from firms to the broader shoulders of a social protection system carries costs: the chapter on flexi-curity in the Employment in Europe report attempts an illustration of what would be the costs if spending on LMP similar to three highest spending countries in the EU (per unemployed) would be applied to all and comes to sums that average 4 per cent of GDP. While this seems to be high it could be money well spent if it effectively ensures the risks inherent in the labour market.¹⁶ As can be shown, such expenditure could have a positive macroeconomic function as it can act as an automatic stabilizer in downturns and might therefore be seen as investment rather than a cost in State budgets.

There is also some concern that employers might have recourse to more dismissals than strictly necessary if such a system of protection outside the firm were installed. Ways to deal with such behaviour could be the installation of an experience rating mechanism that puts more costs on those employers who use the system in a disproportional way. But in general a flexibility-cum-security institutional environment can be seen as a good that benefits both workers and employers and calls therefore for proportional participation to costs.

What are alternatives for reforms of employment and social protection, if one departs from the flexi-curity paradigm? One is “doing business as usual” and leaves the systems that we have. While this solution is feasible for some (precisely those who already have flexi-curity systems) it is less for others. As flexi-curity tries to transform a trade-off into a complementarity and bring together diverging interests, the building up requires negotiation between the social partners. This might be tiresome and fraught with conflict, but both from the substantive as well as from the procedural side, there is not much alternative for searching to balance flexibility and security. Negotiated, sustainable solutions are in any case preferable to more adversarial solutions with uncertain outcomes, which depend on the power balance of the social “partners”.

¹⁵ A test case will be the new French governments attempt to introduce both a new employment contract (*contrat unique*) and revamp the social protection system in making it both more generous and more active. As this will be negotiated with the social partners, one might expect a solution that confirms the above principles. However, the concrete ways in which this is done remain to be seen, as one attempt to introduce a special employment contract for the young has failed in the past, both because of procedural and substantive reasons.

¹⁶ A caveat applies here: money should only be spent for effective programmes and one knows that not all LMP measures are effective. In particular the balance between passive and active measures has to be considered as generous unemployment benefit systems have to be supplemented by active LMPs which can constitute a work availability test after some time spent on U-benefits and active, but non assisted job search.

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Annex I

Different employment systems in EU 15 producing different outcomes

Economic, labour market and social performance in the EU	Greece, Luxembourg, Italy, Belgium, Portugal, Sweden	France, Germany, Finland, Spain	Denmark, the Netherlands, Ireland, United Kingdom (C+ DK and NL)	
Country groupings	A	B	C	C+
Average Tenure**	11.9	10.3	9	9.85
Ratio -1year/+10years of tenure**	1:4.2	1:2.2	1:1.6	1:2.5
Employment Protection Strictness, regular jobs	2.6*	2.5	1.8	2.3
Productivity level and growth (in 1990US\$ and 1980=100)***	28US\$ 158	30.3US\$ 174	32US\$ 185	32.5 U\$ 152.70
Poverty and Inequality (below50%median and Gini)****	9.7 30.5	8.6 28.5	9.2 27.7	5.15 23.8
Employment rates for 15-64	63.1	64.2	71.7	74.35
Employment rates for 15-24	32.5	35.5	58.4	65.0
Employment rates for 55-64	41.4	42.3	52.6	52.5
Employment rates women	53.8	56.8	64.5	68.2
Share of temporary jobs	11.8	18	8.8	11.9
Share of part-time jobs	12	12.9	22.9	33.2
Total unemployment rate	6.8	9.8	4.6	4.6
Youth unemployment rate	17.6	18.8	8.9	8.1
Long-term unemployment rate	3	3.6	1.2	1.1
Expenditure on labour market policies (per 1% of unemployment)	0.17++	0.3	0.6	0.9

* Excluding Austria and Luxembourg due to missing data. ** Data for 2002 *** productivity per hour worked average 1980-2004 ****% of pop. Below 50% of median income, Gini coeff: =100=total inequality,==perfect equality. + Data per 1% point of unemployment (2002/2003), except for labour market policies spending in Ireland: data from 2000). ++ Excluding Luxembourg due to missing data.

Source: EU Commission: Employment in Europe 2005, OECD employment outlook 2004, KILM database. Tenure data provided by Eurostat, own calculations. Notes: all data are group averages and refer to 2003, unless otherwise stated.