

**FOR DEBATE AND GUIDANCE**

THIRD ITEM ON THE AGENDA

**Combining flexibility and security
for decent work****Introduction**

1. The debate on the pros and cons of labour market flexibility, which has been under way for over two decades, had its origin in the differences observed in the adjustment of employment and wages to economic shocks in the United States and (Western) European labour markets. Persistently high unemployment and lower job-creation rates were, it was argued, mainly the consequence of labour market rigidities in the form of employment protection legislation, union bargaining power, generous welfare systems and high taxation. The argument was that, once those elements of rigidity were removed, Europe's labour markets would recover.¹ This debate is complex and long-standing, and the issues have already been discussed by this Committee.² It is not the purpose of the present paper to revisit these discussions.
2. Rather, the focus of the paper is on an alternative, more moderate, policy agenda that was developed in Europe under the flexicurity paradigm, which gives credit to labour market institutions that promote security, while acknowledging that there can be positive effects of labour market flexibility on labour market functioning. In this context, the objective of this paper is to stimulate discussion in the Committee for possible areas of future Office work on flexicurity, both as a pragmatic policy-making agenda and as an analytical framework for allowing labour market adjustment while maintaining security. The paper first introduces the different definitions of flexicurity and then examines existing flexicurity patterns. It then presents the challenges facing developing countries in their efforts to combine flexibility and security, and reviews the relevance and feasibility of promoting this approach outside Europe. Finally, the paper concludes with suggestions for further work by the Office on the topic.

¹ Organisation for Economic Co-operation and Development: *The OECD jobs study: Facts, analysis, strategy*, Paris, 1994.

² GB.288/ESP/2 and GB.300/4/1.

1. Background, objective and definitions of flexicurity

3. The main idea of the flexicurity concept is that flexibility and security, if designed in the right way, can be mutually supportive. In today's labour markets a high degree of flexibility and adaptability is in the interests of both employers and employees. This approach transcends the simple trade-off between flexibility and security. Policies associated with security, providing adequate unemployment benefits combined with activation policies, can also increase flexibility, by providing workers with the confidence that they will be helped to find a new job as quickly as possible and protected financially during the transition. This will reduce fears among workers of losing their jobs. Policies traditionally associated with flexibility may also, under specific circumstances, increase employment security. They should thus be part of a wider policy mix stimulating job transitions and job creation.³ Moreover, flexicurity emphasizes the paramount role of collective bargaining and social dialogue in negotiating the balance among the institutional and policy package.
4. The term "flexicurity" stems originally from a Dutch law⁴ that provided prospects of permanent employment to temporary agency workers after two years of "temping", and thus links employment security with flexible assignments of staff. However, the term has been extended to mean more generally labour market settings that provide security in return for more flexible employment relations. In spite of intensive discussions around the issue, there is no shared understanding of flexicurity.⁵
5. The ILO devoted attention to the issue and launched research on the issues in 2000 but has never adopted any institutional definition of flexicurity.⁶ At the Seventh European Regional Meeting held in 2005 on the flexibility–stability–security nexus, the ILO constituents reached consensus on the following perspective:

Enterprises face enhanced competition as a result of globalization and adaptation to rapidly changing markets. A policy of flexibility and security for enterprises and for workers by providing new training opportunities to improve employability, job search assistance, income support and social protection has worked well in some countries. Critical elements in

³ Although in fact, in today's labour market, a high employment protection legislation index does not in itself guarantee a high overall feeling of security among workers. See European Commission: *Employment in Europe 2006*, Commission Report (Brussels, 2006); Clark, A. and Postel-Vinay, F.: *Job security and job protection*, Centre for Economic Performance Discussion Papers DP678 LSE, 2005; and Auer, P.: *Security in labour markets: Combining flexibility with security for decent work*, ILO Economic and Labour Market Paper, No. 2007/12.

⁴ *Wet Flexibiliteit en Zekerheid (Flexwet)* from 1999.

⁵ Nor is there a well-established definition. The first definition was introduced by Wilthagen, T.: *Flexicurity: The emergence of a new paradigm in labour market and employment regulation?* paper presented at the 13th Annual Meeting on Socio-Economics, Amsterdam, 2001. It provides a fair framework by defining flexicurity as "a policy strategy that attempts, synchronically and in a deliberate way to enhance the flexibility of labour markets, the work organization and labour relation on the one hand, and to enhance security – employment security and social security – notably for weak groups in and outside the labour market on the other hand".

⁶ Flexicurity notions can, however, be observed in the Global Employment Agenda.

balancing flexibility with security are tripartite social dialogue in the framework of broader national macroeconomic strategies, collective bargaining and respect of labour legislation.⁷

6. Since the early 2000s, flexicurity has increasingly become a topical theme in the European Commission.⁸ In the “Common Principles of Flexicurity” endorsed by the EU Council of Ministers in 2007, a loose definition of the concept has emerged around four basic principles (together with four more general principles):
- **Flexible and reliable contractual arrangements and work organization**, from the perspective of the employer and the employee, through modern labour laws, collective agreements and consultation in work organization.
 - **Comprehensive lifelong learning strategies** to ensure the continual adaptability and employability of all workers, and to enable firms to maintain productivity levels.
 - **Effective active labour market policies** which help people to cope with rapid change, periods of unemployment, reintegration and, importantly, to 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 to combine work with private and family responsibilities such as child care.⁹
7. Although there has been considerable discussion on the Danish flexicurity model as a “golden triangle” of flexible hiring and firing rules, generous income security and active labour market programmes,¹⁰ there is no “one size fits all” flexicurity model. Figure 1 illustrates the multiple dimensions of both flexibility and security and their potential combinations, of which the Danish model is but one example of a trade-off between a high level of external numerical flexibility and a high level of income security. The European Commission highlighted the diversity of legal systems, labour market institutions and industrial relations of EU Member States, as well as the importance of establishing

⁷ Conclusions of the Seventh European Regional Meeting, ILO, Budapest, 2005 (ERM/VII/D.6), para. 18.

⁸ At the Lisbon Summit in 2000, the EU had already referred to this concept and after the meeting in Villach in January it became a topical theme in the European Commission. It is now at the core of the European Commission initiatives, with two important documents calling for a flexicurity approach to labour market reforms, namely European Commission: *Green paper: Modernising labour law to meet the challenges of the 21st century* (Brussels, 2006), and European Commission: *Towards common principles of flexicurity: More and better jobs through flexibility and security* (Brussels, 2007).

⁹ Commission of the European Communities: *Towards Common Principles of Flexicurity: More and better jobs*, communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2007)359 final. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0359:FIN:EN:PDF>.

¹⁰ Madsen, P.K.: “Flexicurity’ through labour market policies and institutions in Denmark”, in Auer, P. and Cazes, S.: *Employment stability in an age of flexibility*, ILO, Geneva, 2003, pp. 59–105.

national flexicurity pathways with the social partners.¹¹ Although wage flexibility is another element of this broader view of flexicurity, it has not figured strongly in the discourse around this topic.

Figure 1. The flexicurity matrix

Flexibility/security	Job security	Employment security	Income security
External numerical flexibility			
Internal numerical flexibility			
Functional flexibility			
Wage flexibility			

Explanatory notes: External numerical flexibility reflects the ability to hire and fire and use temporary workers, while internal numerical flexibility captures the room for employers to change working time. Functional flexibility consists of outsourcing/in-sourcing (external) and changes to organization of work (internal). Wage flexibility simply means the ability for firms to adjust earnings of workers. Job security entails the protection of a particular job, i.e. traditional employment protection legislation, while employment security refers to the protection of employment but not necessarily in the same job or for the same employer, which is achieved through labour market policies. Income security consists of protection to earnings provided by social security. Though not reflected in figure 2, as discussed in Auer, P.: *Security in labour markets: Combining flexibility with security for decent work*, Economic and Labour Market Paper No. 2007/12 (Geneva, ILO, 2007), a comprehensive approach to security (through employment security, labour market policies and social rights) can also be defined as labour market security.

2. Pathways to flexicurity

2.1. OECD and EU countries

8. As outlined in section 1, flexicurity was conceived in the European Union context, notably in countries where the institutional requirements for flexicurity were largely already in place. In particular, EU governments have long employed a range of passive and active labour market policies, although to varying degrees. Moreover, while the strength of social dialogue varies in different countries, these structures facilitate the development of flexicurity policies that offer a negotiated outcome for both employers and workers. Flexicurity policies can be observed in the systems currently in use in Denmark, the Netherlands and Austria. Since these countries have developed a well-known tradition of balancing the requirements of flexibility and income security with particularly good labour market outcomes, they have come under close scrutiny by academics, international organizations and policy-makers.
9. Data on the main characteristics of the institutional and policy settings are fundamental to assessing the starting conditions of a country¹² and establish a rough mapping out of countries. Table 1 and figure 2 summarize data on key dimensions of flexibility, measured here by the OECD Employment Protection Index,¹³ and security through spending on

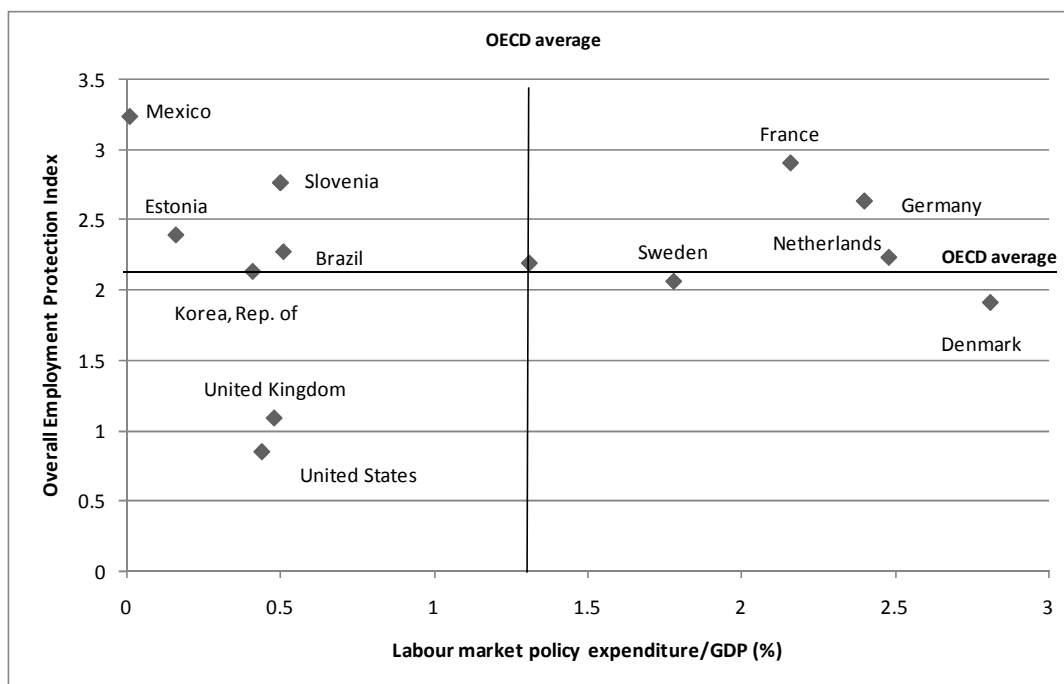
¹¹ See European Experts Group on Flexicurity: *Flexicurity pathways: Turning hurdles into stepping-stones*, published on 27 June 2007. See also Wilthagen, T.: *Mapping out flexicurity pathways in the European Union*, Working Paper, 2008; Cazes, S.: *Flexicurity in Europe, a short note on moving forward*, document prepared for the High-level Tripartite Dialogue on the European Social Model in the Context of Globalization, Turin, 1–3 July 2008.

¹² The EU, for example, provides draft indicators in the annex to the Commission's communication on flexicurity.

¹³ Bearing in mind the usual shortcomings of composite indicators designed to capture qualitative features of labour legislation and translate it into a measurement. However, due to the lack of

active and passive labour market policies. Figure 2 illustrates the considerable diversity that results in different combinations of employment protection legislation and labour market policies in countries. These statistics also help highlight the gaps in terms of providing the conditions to promote both flexibility and security for employers and workers.

Figure 2. Different combinations of policies and institutions to achieve security and flexibility, selected countries



Source: Table 1.

10. More information would of course be desirable to get a comprehensive picture of the institutional and policy conditions of a country, for example, data on numbers of people participating in active labour market policies and lifelong learning programmes, on the replacement rate of the unemployment benefit, the share of the unemployed receiving benefits, more detailed information on employment security provisions (legislation, collective agreements, enforcement) and non-wage-setting institutions.¹⁴ However, the question of data availability remains the most critical one for non-OECD countries.

satisfactory indicators, the OECD index seems to display less flaws than other international indicators, such as the Doing Business employing workers indicator: it considers different types of workers by tenure, considers important aspects of employment protection other than those provided in legislation, such as collective agreements; enforcement and exemptions for some groups of firms and workers from employment protection rules are also considered in the OECD indicators.

¹⁴ See for example Cazes, S. and Nesporova, A.: *Combining flexibility and security for employment and decent work in the western Balkans*, SEER, Vol. 9, No. 2, 2006.

Table 1. Labour market policies and institutions across selected countries

	ALMP/GDP (%)	PLMP/GDP (%)	Overall employment protection index	Collective agreement coverage (%)
Selected OECD countries				
<i>OECD range</i>	<i>0.01–1.31</i>	<i>0–2.00</i>	<i>0.85–3.39</i>	<i>12–99</i>
<i>OECD average</i>	<i>0.56</i>	<i>0.75</i>	<i>2.19</i>	<i>59</i>
Denmark	1.31	1.50	1.91	82
France	0.92	1.24	2.90	95
Germany	0.77	1.63	2.63	63
Korea, Rep. of	0.14	0.27	2.13	12
Mexico	0.01	0.00	3.23	n.a.
Netherlands	1.09	1.39	2.23	82
Sweden	1.12	0.66	2.06	92
United States	0.13	0.31	0.85	13
United Kingdom	0.32	0.16	1.09	35
Selected non-OECD countries				
Brazil ^a	0.08	0.43	2.27	n.a.
Chile	n.a.	n.a.	1.93	24
China	n.a.	n.a.	2.80	n.a.
Estonia	0.06	0.10	2.39	22
India	n.a.	n.a.	2.63	n.a.
Indonesia	n.a.	n.a.	3.02	n.a.
Israel	n.a.	n.a.	1.88	56
Russian Federation	n.a.	n.a.	1.80	62
Slovenia	0.20	0.30	2.76	100
South Africa	n.a.	n.a.	1.35	n.a.

^a ALMP/GDP and PLMP/GDP figures are for 2001, see Auer et al., 2008, op. cit.

n.a. = not available.

Notes: ALMP/GDP = expenditure on active labour market policies as a percentage of gross domestic product. PLMP/GDP = expenditure on passive labour market policies as a percentage of gross domestic product. EPL = employment protection legislation index. Data for ALMP/GDP and PLMP/GDP are for 2007. Data for the overall EPL index is for 2008.

The overall summary measure of EPL index strictness relies on three main components related to protection of regular workers against (individual) dismissal, specific requirements for collective dismissals and regulation of temporary forms of employment. The scale is from 0 (least restrictions) to six (most restrictions).

Source: Auer, P., Efendioglu, U. and Leschke, J.: *Active labour market policies around the world: Coping with the consequences of globalization* (Geneva, ILO, 2008); Venn D.: *Legislation, collective bargaining and enforcement: Updating the OECD employment protection indicators*, OECD Social, Employment and Migration Working Papers No. 89 (Paris, OECD, 2009); Eurostat and OECD online databases.

- 11.** According to the OECD, the dominant tendency among its member countries over the last five years has been for no change in the regulation of employment protection. However, a number of countries have reformed employment protection in the last five years to reduce the overall stringency of regulation on individual contracts and collective dismissals, most notably in the new EU Member States.¹⁵ This general trend towards greater liberalization

¹⁵ Venn, D.: *Legislation, collective bargaining and enforcement: Updating the OECD employment protection indicators*, OECD Social, Employment and Migration Working Papers No. 89 (Paris, OECD, 2009).

of employment protection legislation and more flexible forms of employment, as well as its gender dimension, has also been pointed out by the ILO, at the Eighth European Regional Meeting in Lisbon.¹⁶ In Central and Eastern European countries, for example, the aggregate employment protection legislation index declined (indicating more flexibility) in all countries, while flexible forms of employment have further developed, reflecting the need for greater adaptability at the enterprise level. In the EU15, the “flexibilization” of employment relations was reflected in the significant growth in part-time employment between 1995 and 2006, which accelerated after 2000 in most countries; a deeper labour market segmentation¹⁷ developed in parallel to this trend.

12. However, recent ILO research shows that more flexibility does not systematically imply more labour market mobility as indicated by data on the average stability of job tenure in the EU (9.9 years on average in both 1999 and 2006).¹⁸ In Central and Eastern Europe, the low mobility has been partly explained by a perceived insecurity and the fact that many workers were hesitant to quit their jobs voluntarily, even in periods of economic recovery, because of the weak labour market institutions and policy setting.¹⁹ Moreover, analysis of the situation in Western European countries showed that, while they still have a relatively high level of stable jobs, tenure is not necessarily synonymous with a perceived sense of employment security,²⁰ and the assessment of the flexibility–security nexus therefore needs to take into account the stability/mobility dimension for individuals in the labour markets. Clearly, it would appear that, if workers have the confidence to leave their jobs and benefit from a high level of protection during their transition to another job, they feel less “locked in” and have greater choice of employment. This in turn leads to a better matching of labour supply and demand, and increased labour reallocation with potential positive effects on labour productivity. In that context, a system for ensuring labour market security in transitions between jobs and other labour market status (“protected mobility”)

¹⁶ ILO: *Towards decent work outcomes: A review of ILO work for 2005–08*, Report of the Director-General, Volume II, Eighth European Regional Meeting, Lisbon, 2009.

¹⁷ Measured through the ratio of workers with long tenure (>10 years) to those with short job tenure (<1 year); see ILO: *Towards decent work outcomes: A review of ILO work for 2005–08*, op. cit.

¹⁸ Eurostat data; this figure matches with the figure of 4 jobs/life of the European Foundation for the Improvement of Living and Working Conditions: *Mobility in Europe*, 2006. Calculation in Cazes, S. and Tonin, M.: *Employment protection legislation and job stability: A European cross-country analysis*, Economic Paper, Southampton, 2009. Average data should however be used with great caution since aggregate data may hide more specific trends. The paper finds for example a trend towards shorter tenure of young workers (15–24) in most European countries.

¹⁹ Cazes, S. and Nesporova, A.: *Labour markets in transition: Balancing flexibility and security in Central and Eastern Europe*, ILO, Geneva, 2003; Cazes, S., and Nesporova A. (eds): *Flexicurity: A relevant approach in Central and Eastern Europe*, ILO, Geneva, 2007. This pattern contrasts with economically advanced countries where labour turnover (all moves in and out of employment) typically accelerates with economic growth: in this period, enterprise start-ups and expansions create new jobs, attracting newcomers to the labour market and increasing the hiring of unemployed jobseekers. At the same time, though dismissals for economic reasons decline, the growing number of job opportunities encourages more people to change their jobs voluntarily, see for example, Boeri, T.: “Is job turnover countercyclical?”, in *Journal of Labor Economics*, Vol. 14(4), University of Chicago Press, 1996, pp. 603–625.

²⁰ Auer, P. and Cazes, S. (eds): *Employment stability in an age of flexibility*, ILO, Geneva, 2003.

would facilitate labour reallocation and prevent long-term unemployment through strengthened labour market institutions and effective policies.²¹

13. One critical aspect of the flexicurity debate in Europe relates to the potential economic benefits of the flexicurity systems. In other words, besides the whole issue of defining the forms of regulations that should accompany rapidly evolving labour markets, what could be said about the employment performances of the flexicurity systems? As mentioned before and advocated by some observers,²² Scandinavian countries typically manage to combine systems that achieve a good balance with remarkable economic and social outcomes. However, the extent to which these performances may be due to the institutional flexicurity package would need further empirical investigation, looking at the interactions of the different institutional and policy components of the employment and social protection systems, and linking-up with the macroeconomic level. For example the recent reassessment of the OECD Jobs Strategy²³ goes in that direction by highlighting the importance of considering policy packages and complementarities, rather than single policies, when evaluating labour market performance.

2.2. Asian, African and Latin American countries

14. While conceived in the EU, flexicurity policies or efforts to combine security and flexibility can be observed de facto in other parts of the world, and in fact different regions and countries have tried to adapt or enhance flexicurity schemes locally. The question is, however, whether all the key elements of flexicurity, such as active and passive labour market policies, representative actors and strong institutions of social dialogue are in place and, if so, whether they are being properly balanced and negotiated. This requires a comprehensive assessment of the country position in regard to its legislative, institutional and policy reforms, and the involvement of social partners. Not surprisingly, there is considerable variation in developing countries and emerging economies in terms of the policy and institutional mix that is not only explained by differences in income level and labour market characteristics but also by the different priorities governments have set to achieve security and flexibility. Owing to the lack of data on these dimensions, it is not possible to list detailed figures on different dimensions for developing regions. However, studies conducted by the Office and other institutions do provide an insight into the situation in Asia, Africa and Latin America. In particular, this research reveals that, despite the various constraints, some elements of flexibility and security policies are already in place in developing countries.²⁴

²¹ And focus on protecting labour market transitions, see also Schmid, G.: “Transitional labour markets: A new European employment strategy”, in Marin, B., Meulders, D. and Snower, D.J. (eds): *Innovative Employment Initiatives* (Ashgate, Aldershot, 2000), pp. 223–254. This theory, developed by Schmid, suggests that traditional policies put too much emphasis on economic growth and raising the numbers of people in work; instead, Schmid proposes a strategy of qualitative growth, which would provide some bridging arrangements to facilitate transitions between periods of work, unemployment, education and non-activity.

²² See Auer, P.: *Security in labour markets: Combining flexibility with security for decent work*, Economic and Labour Market Paper No. 2007/12 (Geneva, ILO, 2007).

²³ Organisation for Economic Co-operation and Development: *OECD employment outlook: Boosting jobs and incomes* (Paris, 2006).

²⁴ See, for example, Auer, P., Efendioglu, U. and Leschke, J.: *Active labour market policies around the world: Coping with the consequences of globalization*, ILO, Geneva, 2008.; Berg, J. and Kucera, D.: *In defence of labour market institutions: Cultivating justice in the developing world* (Geneva

15. There is significant heterogeneity in the types of labour market institutions and policies used in **Asian** countries.²⁵ For example, India and Sri Lanka provide stronger job security, rather than relying on a broader approach of labour market security. Enforcement of labour market regulations, however, tends to be weak in these countries. For example, although the administrative authorization for retrenchment in Indian firms with more than 100 workers is potentially a major constraint, weak enforcement means that many enterprises are able to evade these regulations.²⁶ To cope with the subsequent restructuring of the labour market, China has expanded unemployment insurance and active measures in recent years to improve labour market security for retrenched workers. Active and passive labour market policies are stronger and cover more of the workforce in the Republic of Korea, although they spend less than the OECD average. In comparison, Singapore and Malaysia have more flexible labour markets and strong active policies, but low security in terms of employment and income protection.
16. Overall, Asian countries are increasingly using active labour market policies to reach the un- and underemployed, particularly through public works programmes.²⁷ One of the best-known programmes is the National Rural Employment Guarantee Scheme in India, which confers the right of employment of up to 100 days per year in public works programmes per rural household.²⁸ Moreover, income support policies are not the exclusive preserve of richer economies. For example, while high-income countries like Singapore do not have an unemployment insurance scheme, poorer ones such as India and China have introduced or expanded benefits in recent years, although these programmes only cover a small proportion of the population.
17. **Africa** is arguably the most challenging region in terms of the gaps in the policy and institutional mix to promote both flexibility and security. Most African countries have low levels of income and are dominated by informal employment.²⁹ Moreover, weak enforcement and poor implementation of employment protection legislation implies that regulations do not in practice overly restrict hiring and firing of workers, even in the formal economy. Only five countries in Africa, all middle-income, have an unemployment

and New York, ILO and Palgrave Macmillan, 2008); De Gobbi, M.S.: *Flexibility and security in labour markets of developing countries: In search of decent work for all*, Employment Policy Paper No. 2007/6, ILO, Geneva, 2007; Sharkh, M.A.: *Optimal global configurations and effects of labour market flexibility and security: Tackling the “flexicurity” oxymoron*, Employment Working Paper No. 15 (ILO, Geneva, 2008).

²⁵ See Vandenburg, P.: *Is Asia adopting flexicurity? A survey of employment policies in six countries*, Economic and Labour Market Papers No. 2008/4, ILO, Geneva, 2008.

²⁶ See Venn, D.: *Legislation, collective bargaining and enforcement: Updating the OECD employment protection indicators*, OECD Social, Employment and Migration Working Papers No. 89, 2009.

²⁷ See Bechterman, G., Olivas, K. and Dar, A.: *Impacts of active labor market programs: New evidence from evaluations with particular attention to developing and transition countries*, World Bank Social Protection Discussion Paper Series No. 0402, 2004.

²⁸ See <http://nrega.nic.in/> and Sjoblom, D., Farrington, J.: *The Indian National Rural Employment Guarantee Act: Will it reduce poverty and boost the economy?* ODI Project Briefing No. 7, Jan. 2008.

²⁹ See United Nations Economic Commission for Africa: *Economic report on Africa 2005: Meeting the challenges of unemployment and poverty in Africa*, Addis Ababa, 2005.

benefits scheme (Algeria, Egypt, Mauritius, South Africa and Tunisia).³⁰ In other countries, workers are provided with little protection. Although public employment services are typically underfunded and inadequate, governments across the continent increasingly use a range of active labour market policies including public works programmes, entrepreneurship incentives and training schemes. For example, according to some studies, spending on active labour market policies exceeds 1 per cent in such countries as Algeria and Tunisia.³¹

18. Social dialogue in Africa is constrained by the lack of capacity and mechanisms for negotiating on these issues. Most workers are located in the informal economy and are consequently unrepresented or represented by informal organizations, which are typically not consulted by governments. Exceptions to this include Ghana, Niger, Senegal, South Africa and Togo, which have a well-developed tripartite system and active social partners.³² In general, African countries have deficits in terms of flexibility and security for both employers and workers.
19. Countries in **Latin America** have traditionally focused more on the role of employment protection legislation in providing security for workers, although enforcement of regulations has often been weak. As indicated in table 1, specific requirements for collective dismissals (beyond requirements for individual dismissals) are, however, not in place in some countries such as Brazil and Chile.³³ Spending on active and passive labour market policies is typically well below the level of spending in most OECD countries. For instance, average spending on training and employment programmes in seven Latin American countries was calculated to amount to just 0.4 per cent of GDP in 1997.³⁴ Using more recent data for 2007, Mexico allocates negligible amounts to active and passive labour market policies, while employment protection is stricter than the average in OECD economies.³⁵
20. While labour market policy spending has been relatively low, most Latin American countries have devoted considerable resources in recent years to targeted social protection measures such as conditional cash transfers, although these interventions are not directly related to participation in the labour force. For example, the Brazilian Bolsa Familia programme reaches over 11 million poor families, who receive an average transfer of 70 reals (about US\$35). In return, they undertake to keep their children in school and take them for regular health checks. This conditional cash transfer scheme has been successful in helping reduce poverty and income inequality in the country, and has not led to a

³⁰ See US Social Security Administration (SSA) and International Social Security Association: *Social security programs throughout the world: Africa 2009*, SSA, Washington, DC, 2009.

³¹ See Auer, P., Efendioglu, U. and Leschke, J., op. cit.

³² See Twerefou, D.K., Ebo-Turkson, F. and Kwadwo, A.O.: *Labour market flexibility, employment and income security in Ghana*, Employment Policy Paper No. 2007/1, ILO, Geneva, 2007. ILO: *Social dialogue in Africa: Practices and experiences*, PRODIAP, May 2008.

³³ However, in a recent case concerning the dismissal of 4,200 workers by Brazilian aeronautic company Embraer, the Appeal Court deviated significantly from established jurisprudence. It ruled that because there had been no consultation with the union, the Court ordered Embraer to make certain concessions to mitigate the impact of the dismissals, which were however upheld.

³⁴ Countries are Argentina, Brazil, Chile, Costa Rica, Jamaica, Mexico and Peru. See Auer, P., Efendioglu, U. and Leschke, J., op. cit., and references cited therein.

³⁵ The degree of enforcement will affect how employment protection legislation impacts enterprises.

decrease in labour force participation, despite earlier claims to the contrary.³⁶ Other countries in the region such as Mexico and Chile have similar schemes.

2.3. Overcoming challenges to achieving flexibility and security in developing countries

21. While there are clearly differences across and within regions, it is possible to highlight some stylized constraints to implementing policies that promote both flexibility and security in developing countries (see table 2). Arguably, the two principal constraints for developing countries are the lack of fiscal space and inadequate administrative/institutional capacity.³⁷ In addition, social dialogue is weak, while active and passive labour market policies only reach a small proportion of the population. That said, the regional summary above illustrates the fact that despite these constraints, developing countries are using a range of labour market institutions and policies that often differ from those relied on in OECD countries. For example, in terms of active labour market policies, developing countries are implementing such schemes as employment guarantees (India) to support the unemployed and underemployed.

Table 2. Challenges facing developing countries in their efforts to combine flexibility and security

Policy element	Challenges for developing countries
Fiscal capacity	Many developing countries have inadequate tax bases and little fiscal space.
Institutional capacity	Often there is little administrative and institutional capacity to administer labour market and social protection.
Social dialogue	Worker and employer organizations are often weak in developing countries, and social dialogue and collective bargaining mechanisms are typically inadequate.
Passive labour market policies	Income replacement mechanisms such as unemployment insurance are often either inadequate or non-existent.
Active labour market policies	Active labour market policies, such as training systems are few, often weak, and inappropriate for relevant skills development. Public employment services are also inadequately developed and ineffective. However, innovative employment guarantee and conditional cash transfer programmes are observed.

22. Beyond these constraints, there are certain features of the labour markets in developing countries that challenge how these concepts can be applied. For example, in contrast with the majority of high-income countries, the impact of labour market regulations on the flexibility of firms in developing countries is complicated by two key issues: (1) most

³⁶ See Soares, F.V., Ribas, R.P. and Osório, R.G.: *The impact of Brazil's Bolsa Familia: Cash transfer programmes in comparative perspective*, IPC Evaluation Note No. 1, Dec. 2007. The Brazilian Minister of Social Development and Fight against Hunger, Patrus Ananias, announced during his presentation at the Governing Body in March 2009 that the scheme would be expanded during the global economic downturn to include an additional 1.3 million families. See www.ilo.org/global/About_the_ILO/Media_and_public_information/%20Feature_stories/lang--en/WCMS_103947/index.htm.

³⁷ See Islam, I.: *The global economic crisis and developing countries: Transmission channels, fiscal and policy space and the design of national responses*, Employment Working Paper No. 36, ILO, Geneva, 2009.

employers operate in the informal sector, especially in low-income countries; and (2) labour market regulations are often poorly enforced.³⁸

23. Clearly, in the first case, regulations such as employment protection legislation do not directly constrain enterprises since they operate outside the scope of such laws.³⁹ In the second case, firms operating in the formal sector are often not directly hindered by regulations on hiring and firing. Indeed, evidence from the World Bank Group's Enterprise Surveys indicates that labour market regulations are not reported as a major constraint by firms operating in the formal sector in developing regions (see figure 3).⁴⁰ These responses indicate that firms perceive other constraints as far greater obstacles, namely shortage of skills, poor access to credit, inadequate power supply, high taxes and corruption. At the same time, there is some empirical evidence that employment regulations can have a negative impact on output, productivity and labour market outcomes in developing countries, although this literature is still in its infancy and draws on evidence mostly from Latin America and India.⁴¹

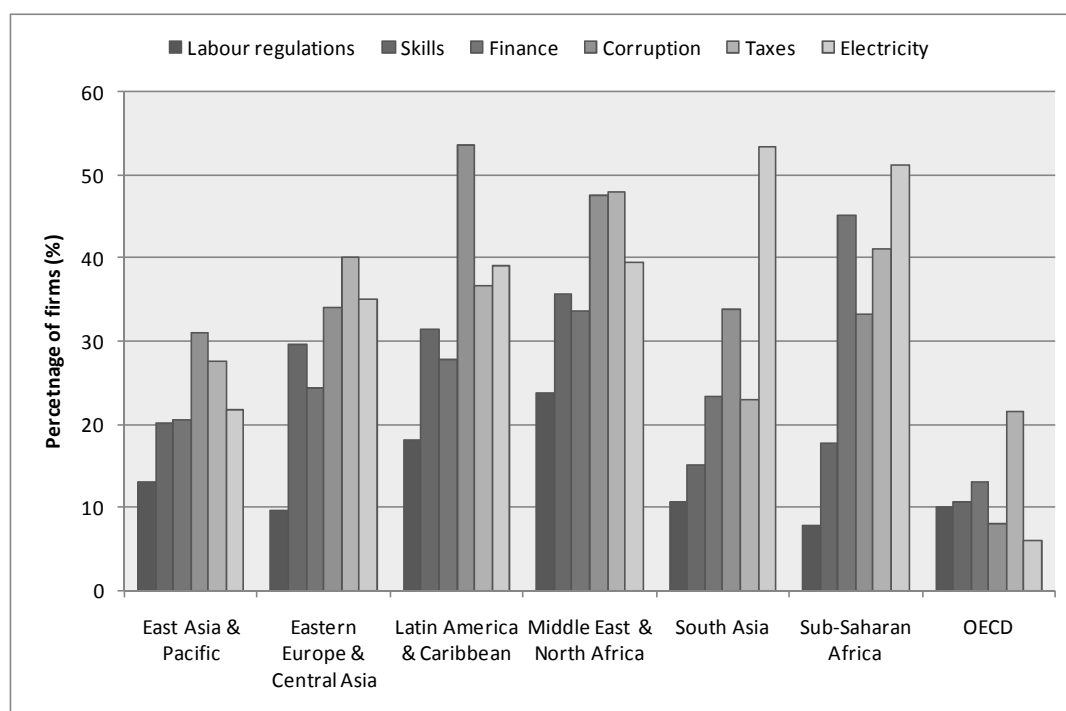
³⁸ See Ghose, A.K., Majid, N. and Ernst C.: *The global employment challenge*, ILO, Geneva, 2008 and the references cited above.

³⁹ Labour market regulations are, however, a potential driver of informality, though the empirical evidence on this issue is not yet conclusive and limited to only a few countries. See, for example, Boeri, T., Helppie, B. and Macis, M.: *Labour regulations in developing countries: A review of the evidence and directions for future research*, World Bank Social Protection Paper No. 0833, 2008.

⁴⁰ See also Fox, L. and Oviedo, A.M.: *Institutions and labor market outcomes in sub-Saharan Africa*, World Bank Policy Research Working Paper No. 4721, 2008. Fox and Oviedo find that "labor regulations are the not the main 'binding constraint' on job creation in sub-Saharan Africa".

⁴¹ For a further discussion on the empirical evidence, see Boeri, T., Helppie, B. and Macis, M.: *Labour regulations in developing countries: A review of the evidence and directions for future research*, World Bank Social Protection Discussion Paper No. 0833, 2008; Freeman, R.: *Labor regulations, unions and social protection in developing countries: Market distortions or efficient institutions?*, National Bureau of Economic Research, Working Paper No. 14789, 2009; and Djankov, S. and Ramalho, R.: "Employment laws in developing countries", in *Journal of Comparative Economics* No. 37, 2009, pp. 3–13. There is scant evidence on the impact of employment protection legislation reforms in developing countries. One exception is Kugler, who finds that weakened employment protection legislation in Colombia in the 1990s was associated with growth of employment, a decline in job tenure in the formal sector relative to the informal sector, and increased job separations and hires in the formal sector, see Kugler, A.: "The effect of job security regulations on labour market flexibility: Evidence from the Colombian labor market reform", in Heckman, J.J. and Pagés, C. (eds): *Law and employment: Lessons from Latin America and the Caribbean* (Chicago, the University of Chicago Press, 2004). The findings of Heckman and Pagés have, however, been questioned by Berg and Kucera, among others, see Berg, J. and Kucera, D.: *In defence of labour market institutions: Cultivating justice in the developing world* (Geneva and New York, ILO and Palgrave MacMillan, 2008).

Figure 3. Perceptions of constraints among enterprises around the world
(percentage of firms reporting constraints as a major obstacle)



Source: World Bank Group's Enterprise Survey, www.enterprisesurveys.org.

- 24.** Drawing from this brief summary of the situation in developing countries and emerging economies, it is possible to highlight a number of key issues for policy-makers.
- Firstly, policy debate often focuses on flexibility rather than on flexicurity in developing and emerging countries and is therefore characterized by the absence of important elements, such as active and passive labour market policies and representative actors and strong institutions of social dialogue, even if some key elements can be identified.
 - Secondly, owing to low levels of enforcement and the predominance of the informal economy, the priority for policy-makers should not only be on reforming regulations but also on increasing both flexibility and security through other means. In particular, security through more effective and inclusive active and passive labour market policies should be improved in the vast majority of developing countries, regardless of changes to labour regulations.
 - Thirdly, governments should consider policy packages and not address issues in isolation. At the same time, it is important to sequence policy and institutional changes to ensure that the goals of improved flexibility and security can be achieved in the context of fiscal and institutional constraints. For example, low-income countries can initially focus more on such social protection measures as conditional cash transfers while they establish the preconditions for implementing a broad-based unemployment benefits scheme.
 - Fourthly, in order to expand the scope of policies, governments should improve the capacity of public employment services through increases in financial and technical resources.

- Finally, given the weak level of social dialogue, the capacity of social partners should be enhanced to ensure that the pathway to flexibility and security is a negotiated solution to the employment and broader development challenges facing the country.

2.4. Flexibility and security in times of crisis

25. In times of increased insecurity and uncertainty, ensuring that the costs of the economic crisis for firms, individuals and public authorities are shared fairly is a particularly difficult challenge. However, the crisis context illustrates the importance of flexicurity principles at different stages of the business cycle, specifically in terms of balancing the need for enterprises to adapt to a collapse in aggregate demand and freezing of credit channels with the increased requirement for security of workers. Through active and passive labour market policies, governments in both developed and developing countries have attempted to reach some sort of balance.⁴² The main active labour market policies used in high-income countries include training, work sharing (usually subsidized), other employment subsidies, and job search assistance. These measures have sought both to reduce layoffs and to improve the employability of those out of work. While more limited in scope and number, low and middle-income countries have nonetheless made use of a range of active labour market policies in response to the crisis, including public works programmes, entrepreneurship incentives and training schemes. A number of countries have also extended coverage of and benefit for unemployment benefits schemes to protect incomes of laid-off workers, in particular of those with more flexible contractual arrangements such as temporary agency workers, which in turn supports consumer demand.
26. The present downturn has also underscored the fact that governments can respond most effectively to such crises when relying on existing institutions and programmes, which all rest on permanent structures. For example, a well-staffed and equipped public employment service is needed to manage programmes that target the unemployed. Subsidies require legislation that stipulates how these financing measures are provided to employers. The lesson learnt from the East Asia crisis in the 1990s was that the lack of institutions and programmes, especially in terms of established social security schemes, hindered these countries in their ability to respond to the adverse impact of the crisis on labour markets and household welfare across the region. This situation is, however, being repeated in many countries during the current global financial crisis.⁴³
27. In some countries, the crisis has already reignited a debate about the right balance between flexibility and security in the labour market. During the post-crisis period, attention is likely to shift towards hiring and firing flexibility as a means of reducing the lag in employment recovery. In this context, it is important for policy-makers to recognize the role of both flexibility and security policies in improving outcomes in the labour market, particularly for vulnerable groups.

3. Conclusions and recommendations

28. Promoting a coherent policy mix of flexibility and security is not only relevant to high-income countries but also to policy-makers in developing countries, although this requires

⁴² See Cazes, S., Heuer, C. and Verick, S.: *Labour market policies in times of crisis*, Employment Working Paper No. 35, ILO, Geneva, 2009; and ILO: *Protecting people, promoting jobs. A survey of country employment and social protection policy responses to the global economic crisis: An ILO Report to the G20 Leaders' Summit*, Pittsburgh, 24–25 September 2009, Geneva, 2009.

⁴³ See the discussion in *An ILO report to the G20 Leaders' Summit*, op. cit.

a broader understanding of the flexicurity approach which is highly relevant to the ILO's mission and vision.⁴⁴

29. The following could define the building principles of such a policy framework:

- Labour market policies and institutions that promote flexibility and security of employers and workers should be considered not in isolation but jointly, in order to take advantage of complementarities and synergies where possible.
- Appropriate sequencing of policies may also be required in the light of technical and fiscal constraints faced by many countries, particularly developing ones.
- The capacity of institutions, including public employment services, should be enhanced to improve the effectiveness and scope of social protection schemes and active labour market policies.
- Social dialogue and collective bargaining play a fundamental role at all stages of development in terms of improving governance in general and labour market policies and institutions in particular.
- These policies and institutions should ultimately contribute to creating decent jobs, and to promoting economic growth, poverty reduction and social inclusion, and thus be aligned with national development plans and poverty reduction strategies.

30. The Office could undertake further work over the medium term consisting of a research agenda on achieving labour market flexibility and security in low- and middle-income countries through labour market policies, including active labour market policies, and institutions, which would lead to the articulation of concrete, actionable and negotiated recommendations. This research could address a range of issues including the following:

- Policies and institutions that enhance security in the informal economy and promote transitions to the formal economy.
- The role of social dialogue in promoting good governance and the formulation of more effective policies and institutions that combine flexibility and security in developing countries.
- The development of flexibility and security indicators to facilitate analysis of the relationship between policies and labour market outcomes and to identify the gaps in policies.
- Tailoring policies and institutions to improve security of different segments of the population vulnerable to exclusion from the labour market, including women, young people and the long-term unemployed. Flexicurity is about the life cycle of individuals which also implies a work–life balance over an individual's career. How could the needs of individuals – and especially those of mothers and parents in general be matched to employers' needs for flexibility?

⁴⁴ There are a number of ILO standards that relate to or confirm the twin goals of flexicurity. Some examples are: the Employment Policy Convention, 1964 (No. 122), the Collective Bargaining Convention, 1981 (No. 154), the Termination of Employment Convention, 1982 (No. 158), the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), the Private Employment Agencies Convention, 1997 (No. 181), the Part-Time Work Convention, 1994 (No. 175), the Employment Relationship Recommendation, 2006 (No. 198), the Employment Service Convention, 1948 (No. 88).

- The design of appropriate policies and institutions to help employers to adjust while protecting workers during a major economic downturn, such as the current global financial crisis.
 - The enlargement of the concept of flexicurity to identify potential linkages with other types of flexibility such as wage flexibility and functional flexibility.
- 31.** On the basis of this research and resulting recommendations, the Office would continue to work with the ILO's constituents to improve capacity in member States to achieve a combination of flexibility and security in the labour market.

Geneva, 20 October 2009.

Submitted for debate and guidance.