

# **Flexicurity – Squaring the circle between flexibility and social security**

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## **INTRODUCTION**

Since the early/mid 1980s flexibilization has constituted the predominant strategy of labour market regulation in the vast majority of developed market economies. On the one hand, it has definitely created greater flexibility mainly although not exclusively in the interest of employers. On the other hand, it has widely neglected various social security issues that are basically in the legitimate interests of employees. Since the late 1990s however, the long-lasting hegemony of further flexibilization and deregulation has not only been subject to criticism on empirical grounds because of mixed results and unfulfilled expectations. It has also been seriously challenged by the new concept of flexicurity initially developed in some member states of the European Union (EU).

Flexicurity (in its broadest sense) can be defined as a more far-reaching, innovative policy strategy that attempts to combine and balance various forms of labour market flexibility and security issues. The concept thus bridges over the current gap between labour market and social policy issues and integrates both topics. The term flexicurity was first used in the Netherlands, where the government passed a law in 1999 aimed at addressing the imbalance between the inflexibility of core workforces and the uncertain situation of marginal ones (the so-called “polder model”) (Wilthagen/Tros 2004). At about the same time, a different concept of flexicurity was taken up in Denmark (“golden triangle”). The Danes pursued a policy based on weak legal protection against dismissal, relatively generous financial security for the unemployed and measures designed to encourage reintegration into the labour market. Both national concepts differ to a considerable degree but are regarded as having been fairly successful in terms of employment goals, especially in terms of reducing unemployment, and, as such, are regarded as worthy of emulation (Jørgensen/Madsen 2007).

Most recently, flexicurity has become a policy field of major interest not only for a growing number of employment relations scholars but also for policy-makers in the EU as well as the ILO and the OECD. Especially within the EU it has been of increasing political interest since the early 2000s. It is supposed to constitute an integral part of the European Social Model, the current successor to Delors’ “social dimension of the internal market”, and to play a major role within the revised Lisbon Strategy for growth, jobs and competitiveness (European Commission 2006). In 2007 the European Commission finally adapted this encompassing principle of political regulation, developed its common principles and initiated their implementation as an integrated part of future employment policies in all 27 member states (COM (2007) 359).

First, this article deals exclusively with the European level and focuses on the development of more elaborated concepts of flexibility and social security. Then we present selected empirical findings on the relationship between flexibility and security for the 27 member states. Finally we deal with the European level, especially problems of implementation and various problems of their implementation at national, regional and local level. Second, the problem is difficult to solve at national level because of existing legal-institutional differences between member states. This fundamental diversity is set to definitely persist and has to be dealt with both in theoretical and practical terms. All potential strategies based on the principle of “one size fits all” are doomed to failure. All in all, flexicurity is going to add a new dimension to the existing system of European employment policy.

## **THE TWO COMPONENTS OF FLEXICURITY**

Flexibilization strategies have increased social risks in both the short-term (including income-related risks) and the long-term perspective (primarily pension systems). In other words, the numerous consequences of flexibilization for social security issues have been widely neglected. This means that regulatory principles are supposed to be changed from pure deregulation to careful re-regulation.

The dimension of flexibility is more elaborated and well developed. One basic differentiation is provided by the typology applied by the OECD (1986), amongst others. It distinguishes two main dimensions - internal and external flexibility - and then breaks these down into further categories.<sup>1</sup> The first covers all strategies that make it possible to adapt deployment of labour to changes in demand without resorting to the external labour market. This includes, above all, adjustments to working time (internal-numerical flexibility), to income (monetary flexibility), and to work organisation and qualifications (functional flexibility). By contrast, external flexibility is based above all on the "traditional" adjustment of the size of the workforce (through hiring and firing) and also increasingly on short term and agency work as well as transfer/outplacement companies (Keller/Seifert 2007).

Comparative studies by the OECD (2004) of the degree of labour market flexibility based on an index of "employment protection legislation" (EPL) only take into account aspects of external forms of flexibility (dismissal protection, regulations on short term and agency working) and completely exclude internal forms. But as there are both substitutive and complementary relations between the two forms of labour market flexibility, the overall degree of flexibility can only be gauged if all its dimensions are taken into account. Furthermore, the EPL indicator only deals with the institutional and legal framework and not empirical degrees of flexibility, an analysis of which can lead to different results, as will be shown later on.

The second dimension, security - or to be more precise, social security - has been much less emphasized and remains definitely underdeveloped in conceptual and political terms. Any attempt to assess whether changes in an individual's employment situation as a result of flexibilisation can be categorised as unsatisfactory in social terms and therefore precarious requires operationalisable criteria. Our overall suggestion is to make use of a broader version of the concept and to differentiate the following four dimensions within social security issues.

- *Income*: The level of income should be adequate for subsistence. The lower limit can be defined in terms of the low pay threshold, which is usually calculated as two thirds of the median wage for full-time employment (OECD 2006). A general element of the concept would be equal treatment, including equal pay for all forms of employment.
- *Employment stability* means employment with minimal interruptions. Whereas job security is based on the continuity of a specific workplace, in the case of employment security the emphasis is on continuity of employment, even though this may involve various activities and different employers. This is a precondition for an individual to earn an independent income and adequate claim to social security benefits. It does not mean security in a specific job but rather an individual's capacity on the internal and external labour markets.
- *Employability*: In a period of rapid structural change (including "ageing societies") and consequent changes in qualifications and occupations, employability is becoming increasingly important for employment stability. One crucial requirement is lifelong learning in addition to initial vocational training. An indicator of active labour market policies can be participation in in-company continuing vocational training provisions.
- *Social Security System*: Social security additionally includes adequate material protection against the social risks of sickness, unemployment and old age as provided by social security systems.<sup>2</sup>

These criteria enable us to describe certain dimensions of precariousness (such as income or employment precariousness). Social security standards are regarded as precarious when certain thresholds are not reached or certain requirements (e.g. compulsory insurance) are not met. The level defined for the specification of low/precarious income enables as a threshold a similar approach for the other dimensions creates considerable problems. In mitigation, however, it should be pointed out that the line between precarious and non-precarious status remains to some extent fluid until further questions are clarified. Firstly, the degree of precariousness depends on the length of time that an individual is employed on a basis of inadequate social security cover. In principle there is a close correlation between the two aspects. Secondly, the question of voluntary selection of a particular type of employment plays

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<sup>1</sup> The variants can have differing significance for the functionality of national labour markets depending on the institutions involved.

<sup>2</sup> As the data produced by the fourth European survey of working conditions carried out by the European Foundation (2007) of 2005 does not adequately reflect this criterion in terms of our requirements, it will not be taken into account in our further analysis.

a role. It is conceivable that an individual, for professional or qualification reasons, might opt for a temporary job or decide for other (private or family) reasons to have phases of part-time working. Thirdly, it is important to differentiate between the perspective of the individual and that of the household when assessing levels of income. The following analyses only refer to the individual level. The data used here does not make it possible to take into account in adequate detail the criteria of free choice or duration. In view of these constraints, it is only possible to calculate relative values (Tangian 2007).

There is no consistent definition of precisely what features make work socially secure or insecure/precarious. The criteria applied vary according to the analytical perspective. One common approach to evaluating atypical employment situations uses permanent, full-time employment as its point of reference. Precarious employment is then characterised by a comparatively lower level of job security, limited levels of protection/security offered by legislation or collective agreements, little access to social security and low income. The income-related criterion can, of course, also be applied to permanent full-time working.

In its publications on flexicurity, the EU Commission differentiates between job and employment security and explicitly gives priority to the second. Even if this extension of the concept would appear to be more appropriate because it takes into account the requirements of structural change, it falls short in terms of the social impact of flexibility. Employment security excludes the questions of income and protection by the social security system. Both aspects play a central role in determining an individual's social or economic living conditions not only while he is of working age but also thereafter. For this reason this paper uses the broader concept of social security rather than the concept of employment security used by the EU Commission.

One point of criticism frequently put forward not only but especially by trade unionists at national as well as European level is that both components are not really balanced and that flexicurity basically means nothing else but the continuation of old neo-liberal concepts or flexibilisation strategies in a new form of disguise. This more or less fundamental critique of vagueness needs special attention and consideration has to be given to the question of whether both parts are complementary rather than conflictual.

Furthermore, the original concept has been limited to the comparatively short-term perspective of active employment. In contrast to this restriction, our analysis also includes a long term (or even lifetime) perspective, i. e. the integration of all employees (in standard as well as non-standard forms) into strategies of employability as well as various social protection systems, especially pension systems.<sup>3</sup> In comparative perspective the basic idea is that national systems with the guarantee of a basic income leave individuals less vulnerable than those relying basically on contributions during active employment.

The basic concept of flexicurity refers mainly to patterns of standard employment. It must, however, be re-conceptualized and widened in order to include existing types of atypical employment (or contingent work). These forms include, among others, part-time employment, fixed term contracts, casual employment, agency work, and even bogus self-employment. In the more recent past most of these forms have been growing to a considerable degree in most EU member states, albeit at different speeds. These employees are, however, especially vulnerable because they face more and higher social risks, if not even precariousness. Therefore, concepts of flexicurity have to cope with increasing processes of segmentation (or the problem of insiders and outsiders). In other words, special emphasis has to be given not so much to the well known economic consequences as to the widely neglected social consequences of flexibilization, not just for standard but also for various forms of atypical employment.

## **EMPIRICAL FINDINGS ON THE RELATIONSHIP BETWEEN FLEXIBILITY AND SECURITY**

The relationship between flexibility and social security/precariousness is analysed with the help of the dimensions and indicators described above. Their operationalisation is based on data drawn from the fourth European survey of working conditions (European Foundation 2007).<sup>4</sup> The national indicators can be interpreted as follows. The national index expresses the average response of all individuals of the given group to all the questions. The values 0% or 100% are

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<sup>3</sup> Last but not least, one could argue that the concept has no solid theoretical base. Some authors make use of the concept of "transitional labour markets" whose basic idea is to ease transitions between various kinds of activity (Schmid/Gazier 2002).

<sup>4</sup> This was a survey of employees carried out in 31 countries in 2005 covering a wide range of themes related to various aspects of working conditions. Our analysis is restricted to the 27 EU member states and is based on answers of 20,841 employed persons out of the total of 29,860 respondents to the survey. For details Tangian (2007).

reached when *all* questions are answered by *all* respondents with extreme answers (negative or positive, respectively). According to the OECD method, a composite indicator represents the weighted sum of the variables, with their weighting being calculated according to the variation of the variables. In the case of multi-stage aggregation, unusual effects can result: higher first-level aggregate indicators can result in lower second-level aggregate indicators and vice versa (OECD 2005).

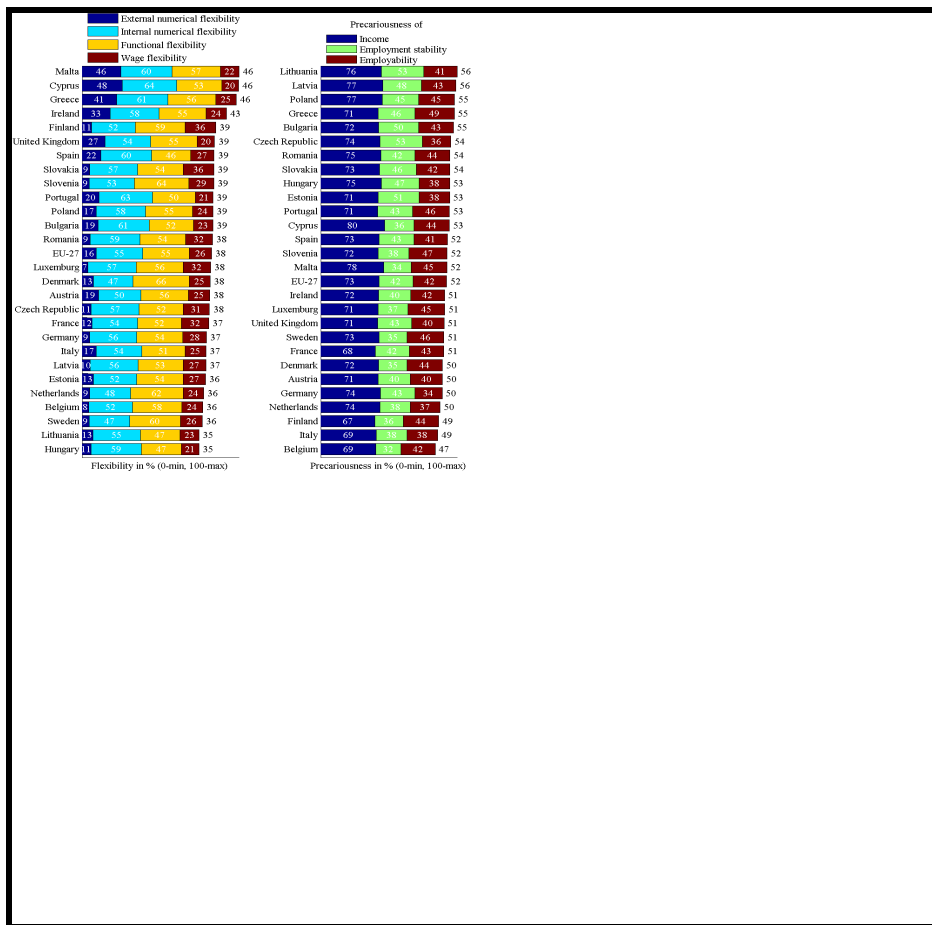


Figure 1. Flexibility and precariousness indices.

Source: Seifert/Tangian 2008.

The country indicators (national average values for individual indices) are displayed in Figure 1. The contribution of the partial (first-level) indicators to the overall aggregate indicators is shown by bars. The influence of external flexibility on the overall index (right-hand bars) is considerably smaller than that of internal flexibility. The countries are listed in falling order of overall indicators (values to the right of the bar). The overall indicators are proportional to the overall bar length.

For all EU member states the overall flexibility indicator is on the lower half of the scale, with neither extremely high nor extremely low values. According to the dimensions of flexibility considerable differences in the degree of flexibility emerge. Internal numerical and functional flexibility have much higher values in all countries than external numerical or wage flexibility. External numerical flexibility plays a less prominent role, and the other flexibility indicators are slightly above the EU values.

The results calculated here for factual flexibility show little overlap with the results from the OECD's EPL evaluation (OECD 2004), which indicates the degree of flexibility on the basis of institutional/legal standards. The values of the indicator of precariousness of work are all located in the centre of the scale for the EU member states. None of the member states have extreme readings, and neither the top nor the bottom third of the scale is occupied.

There is a positive, though not extremely strong, link between flexibility and precariousness. The linear regression for the individual indices (Fig. 2) shows that precariousness grows as flexibility increases, with a slope of 13% (see the coefficient in the regression equation above the plot), and the negligible P-value = 0.0000 indicates a high statistical significance of this dependence.

Fig. 2 displays the location of the EU countries on the plane “flexibility–precariousness of work”. No country has low precariousness combined with high flexibility. The lower right-hand corner of the plot, which represents flexicurity with a relatively high flexibility and a relatively low precariousness, is unoccupied. This means that all EU Member States are still far from achieving their flexicurity goals.<sup>5</sup>

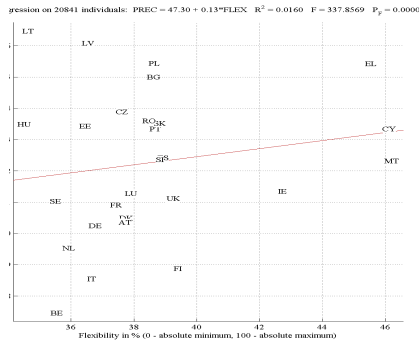


Figure 2. Dependence between aggregated flexibility and precariousness indices normalized for European countries. Source: Seifert/Tangian 2008.

Figure 3 presents the regression coefficients for the aggregate and partial indicators of flexibility and precariousness, showing the slope of regression lines for the corresponding pair of indicators. For example the upper left-hand pair of bars for aggregate flexibility and aggregate precariousness depicts the regression coefficients 0.13.

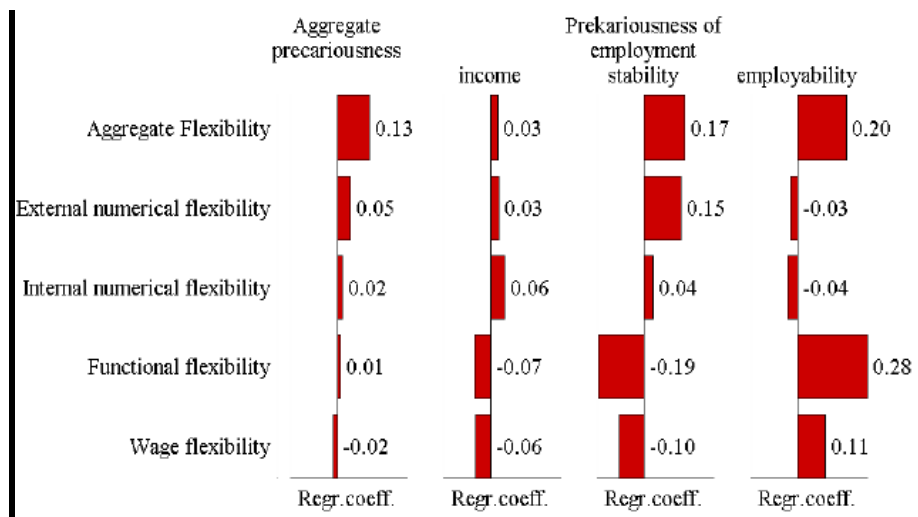


Figure 3. Regression coefficients for the dependence of aggregate indices of precarious work on aggregate indices of flexible work computed for 23,788 individuals (upper and lower bars, respectively). Source: Seifert/Tangian 2008.

For the pairs of partial indicators of flexibility and precariousness, the calculations show the following results:

<sup>5</sup> The values for Lithuania and Latvia are particularly poor with respect to these goals, whereas Finland has succeeded better in combining a relatively high degree of flexibility with a lower level of precariousness.

- External numerical flexibility has a negative influence on income and employment stability (= positive influence on precariousness of income and employment stability).
- Internal numerical flexibility has a similar, but weaker, impact.
- Functional flexibility improves income and employment stability, but goes hand in hand with lower employability. This last effect is surprising and may have to do with reverse causality: employees with relatively poor employability and a weak position on the labour market are subject to strong pressure to accept available job offers and change occupations.
- In this context, wage flexibility has the same effect as functional flexibility, but the regression coefficients indicate a weaker link. As in the case of the previous observation, it can be a manifestation of reverse causality: employees with low employability are more likely to accept flexibly paid work.

## **THE CURRENT STATUS AT EU LEVEL**

The development of the concept and its discussion with various stake holders at European level did not lead to unified results. In mid 2007 the European Commission finally published its Communication on flexicurity and proposed its so-called four broad “components” of the flexicurity concept (COM(2007) 359):

- Flexible and reliable contractual arrangements through modern labour laws, collective agreements and work organisation,
- effective, high-quality, active labour market policies that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs,
- lifelong learning strategies to ensure the continual adaptability and employability of employees,
- modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility.

Almost by definition, the Commissions’ concept has to remain broad and rather vague in procedural as well as substantive terms. The basic reason is the existence of enormous legal-institutional differences amongst the current EU member states. The EU can only indicate the general direction and goals of future policies without, however, prescribing substantive details or concrete adaptation measures. The crucial overall question is whether and/or how this general framework will be specified in national contexts in order to be successfully implemented in all member states. The Commission has identified five distinct models of flexicurity in Europe: the Anglo-Saxon system, the Continental system, the Mediterranean system, the Eastern European (plus Italy) system, the Nordic system (European Commission 2006). These legal-institutional differences will persist. Therefore, any kind of “harmonization” or single model is not intended, so-called “national pathways” are supposed to be developed and implemented.

The European social partners have agreed on a joint analysis and formulated their own suggestions for policy making (BusinessEurope et al. 2007). In late 2007, the Council adopted eight “common principles on flexicurity”. In early 2008 the European Commission officially installed the “Mission for Flexicurity”, whose report was published by the end of the year (Council 2008). Among others, it stresses the important contribution of flexicurity “in a more difficult economic context” of the current slowdown. Nevertheless, economic growth and sound macroeconomic policies will remain principle factors.

## **IMPLEMENTATION**

The Commission’s plans are rather ambitious both in procedural and substantive regards: The flexicurity principles are not supposed to constitute an isolated, new policy area but are rather to be integrated into the European Employment Policy or, to be more precise, into the broad, employment guidelines, the next (third) generation of which were launched in 2008. The open method of co-ordination (OMC) developed as a fundamental formula for this new policy field following its institutionalization in the late 1990s and later also applied in other policy areas such as pensions, immigration and social exclusion, is considered to constitute the appropriate procedure of implementation (Zeitlin et al. 2005). A so-called policy cycle is to be introduced: Once the pluri-annual guidelines have been established at European level, all member states formulate their national action plans and indicate in annual reports how they have tried to

achieve these targets.<sup>6</sup> The Commission reviews, monitors and evaluates these national reports on implementation, presents its joint employment report and (together with the Council) is allowed to make non-binding recommendations to individual member states. All in all, this iterative procedure is supposed to create new opportunities for mutual policy learning between member states, to disseminate best practices and to lead to a certain degree of convergence.

The Commission has repeatedly argued that it needs the active involvement of the social partners at European as well as national level in all stages of policy making. It considers social dialogues - the institutionalised form of co-operation in employment relations - to be the most appropriate instrument. These dialogues can take place at macro ("interprofessional") or sectoral level. Throughout the 1990s, especially under the new principles of the Maastricht Treaty and its "negotiated legislation", the former was more prominent and resulted in some binding results. More recently, the latter has become more important because it allows for more specific and adaptable results (Keller 2008). Both levels will be of relevance in our context.

Furthermore, social dialogues can be tripartite or bipartite. In contrast to its preferences throughout the 1990s the Commission currently favours, (as in other policy fields) the bilateral version that takes place between autonomous social partners without the active involvement of the Commission. Implementation procedures will most likely apply to tasks related to the bilateral version, whereas the formulation of overall policy strategies will have to include public actors. Changes in national labour laws (among others, of social security issues) include, almost by definition, the state as corporate actor.

The social partners have to be active participants in all stages of the policy cycle, from formulation to implementation. Social dialogues at national level means collective bargaining between autonomous partners (or management and labour, to use more traditional terms) within the context of employment relations. In other words flexicurity issues should be included in collective bargaining. In contrast to social dialogues at European level, collective agreements at national level should be binding; otherwise, problems of implementation and monitoring would increase and could, indeed, become insurmountable.

The Commission implicitly assumes that all stakeholders will benefit from this new policy and that both parts are compatible or even complementary. But flexicurity is not by definition and in all cases a positive sum game. One obvious problem is the fact that the interests of "both sides of industry" are not identical - and are difficult to balance in specific regards. Changes in the present distribution of scarce resources seem to be necessary but difficult to achieve. In other words, stronger emphasis on social security could possibly require less flexibility. Furthermore, it is realistic to assume that both sides will stick to traditional paths and favour specific elements of the overall concept: BusinessEurope will be basically interested in a more flexible workforce whereas the ETUC will favour social components, especially social security issues.

Differences will not only appear between the social partners but also between member states (among others, old versus new ones, Northern versus Southern ones) because institutional and political diversity persists and contributes to a significant degree of heterogeneity. In other words, some members will be more willing and able than others to develop and implement "national pathways" - and to face budgetary and fiscal costs. Furthermore, the relationship between quantitative (number of jobs) and qualitative (better jobs) dimensions is empirically unsolved. In the more recent past quantitative problems have frequently dominated in the European debate.

Last but not least, the widely neglected role of member states in the overall process has to be determined or at least indicated. Legislation and collective bargaining, or activities by the state and the social partners, are not mutually exclusive but are supposed to be complementary and country-specific. Among others, frames of reference for life-long learning could be installed by legislation and adapted to specific circumstances by collective bargaining.

## PROSPECTS

The paper demonstrates, on the basis of preliminary empirical findings, that flexicurity will create constraints as well as opportunities for corporate actors at national level (primarily trade unions and employees but also employers and their organizations). At present, none of the EU member states has a high degree of flexibility combined with a low level of precariousness (= a high

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<sup>6</sup> All general targets are formulated at European level but member states are completely free in the choice of to choose country-specific instruments and procedures.

degree of social security). One cannot testify a balanced implementation of flexicurity. Some member states (among others, in Scandinavia) will be more active than others. In view of the fact that the relative values for precariousness exceed those for flexibility, future flexicurity strategies should focus on problems of precariousness and achieve a better balance between social security and flexibility.

Our basic political conclusion is that there exists a hitherto unknown political window of opportunity - no more and no less. It cannot be taken for granted that there will be any fundamental change of direction in future EU employment policy, but there is a political opportunity for introducing major modifications and adjustments. A necessary prerequisite, however, is the active and immediate involvement of the social partners in all member states not only in the formulation but also in the implementation of diversified European and national policies. Especially social partners in the majority of new member states will face difficulties because of their lack of resources. If the unions hesitate too long it may be too late to have any major impact on future European policies.

Last but not least, the already existing degree of economic and social heterogeneity within the EU has increased following the most recent so-called Eastern enlargement since 2004 (Kohl/Platzer 2004). The concept of flexicurity will definitely be of more relevance in some member states than in others because of differing points of departure, incompatible interests amongst various actors and the need for compliance. Furthermore, the impact of the social partners at various levels differs, as does the development of social dialogues within national systems, with and their different customs and practices.

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