European flexicurity: concepts and consistent policies

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Abstract: The notion of *flexicurity* promotes the idea of compensation of labour market deregulation (= flexibilization) with advantages in employment and social security. The paper contains a brief history of the concept and its operational definition. To monitor effects of flexicurity policies in Europe, flexicurity indicators are constructed. The empirical investigation shows that, contrary to political promises and theoretical considerations, the deregulation of European labour markets is absolutely predominating. A contradiction between several European employment policies is suggested to surmount by introducing a so called *flexinsurance*, meaning that the employer's contribution to social security should be proportional to the flexibility of the contract/risk of becoming unemployed in conjunction with elements of the basic minimum income model.

Keywords: flexicurity, labour market flexibility, social security, trade unions.

Introduction

The opening of financial markets in the 1970–1980s was thought to improve living standards in industrialized countries and to solve the poverty problem in the third world. Investments in countries with low labour costs promised cheap goods for consumers and high returns for investors. At the same time, the target countries were expected to profit from modern technologies and job creation. That was the theoretical starting point for the current globalization (World Bank 2002).

Since then living standards, even in the United States, have visibly improved exclusively for top earners (Krugman 2006), to say nothing of developing countries, where the poverty problem was not solved and inequality even increased (Stiglitz 2002). On the other hand, a legal opportunity of making foreign investments allowed European employers to make pressure on their governments to relax the restrictive employment protection threatening otherwise to continue moving jobs abroad.

As a result, a general flexibilization of employment relations is already adopted by the European Union as a means to enhance economic performance and to support sustainable development. Employers wish to share the burdens of competition with employees, and politicians seek to shift the responsibility for employment from the state to individuals. The solidarity is getting to be restricted to those who are unable to receive a sufficient income, and the adherents of the economically more competitive and socially more 'hard' Anglo-Saxon model are becoming more influential.

In most of the post-war Europe, employment relations were regulated by rather constraining employment protection legislation and by collective agreements between employers and trade unions. The actual contradiction between the flexibilization pursued by employers and strict labour market regulation defended by trade unions makes topical the discussion on flexibilization and employment protection legislation with regard to economical performance and unemployment.

The advantages and disadvantages of labour market regulation/flexibility versus employment were investigated in the influential *Jobs Study* by the OECD (1994) and then by numerous scholars; for a review focusing on European welfare states as defined by Esping-Andersen (1990) see Esping-Andersen (2000a–b). As concluded by Esping-Andersen (2000b: 99), 'the link between labour market regulation and employment is hard to pin down'. Under certain model assumptions, the same empirical evidence, that unemployment is practically independent of the strictness of employment protection legislation, was reported by the OECD (1999: 47–132). There are even cases when the same legislative changes caused different effects. For instance, the impact of almost equal deregulation measures on the use of fixed-term contracts 'was sharply different' in Germany and Spain (OECD 1999: 71).

At the same time, a good labour market performance under little regulation was inherent in the Anglo-Saxon model, that is, USA, Canada, United Kingdom, and Australia (OECD 1994, Esping-Andrsen 2000a). The deregulation of labour market in the Netherlands, which had a different kind of economy, coincided with the 'Dutch miracle' of the 1990s (Visser and Hemerijck 1997, Gorter 2000, van Oorschot 2000). A similar Danish practice in the background of 'Eurosclerosis' (Esping-Andersen 2000a: 67) was successful as well (Björklund 2000, Braun 2001, Madsen 2004). All of these convinced some scholars and politicians of the harmlessness and even usefulness of labour market deregulation. It was believed that employment flexibility improved competitiveness of firms and thereby stimulated production, which in turn stimulated labour markets; for criticism on this viewpoint see Coats (2006).

The claims for flexibilization met a hard resistance, especially in countries with old traditions of struggle for labour rights. Wilthagen and Tros (2004: 179) reported with a reference to Korver (2001) that the *Green Paper: Partnership for a New Organisation of Work* of the European Commission (1997) 'which promoted the idea of social partnership and balancing flexibility and security' got a very negative response from French and German trade unions, because 'the idea of partnership represents a threat to the independence of unions and a denial of the importance of worker's rights and positions, notably at the enterprise level'. The ILO published a report, concluding that 'the flexibilization of the labour market has led to a significant erosion of worker's rights in fundamentally important areas which concern their employment and income security and (relative) stability of their working and living conditions' (Ozaki 1999: 116).

To handle the growing flexibility of employment relations with lower job security and decreasing eligibility to social benefits, the notion of *flexicurity* has been introduced. Wilthagen and Tros (2004) ascribe its conception to a member of the Dutch Scientific Council of Government Policy, Professor Hans Adriaansens, and the Dutch Minister of Social Affairs, Ad Melkert (Labour Party). In the autumn of 1995 Adriaansens launched this catchy word in speeches and interviews, having defined it as a shift from job security towards employment security. He suggested compensating the decreasing job security (fewer permanent jobs and easier dismissals) by improving employment opportunities and social security.

For instance, a relaxation of the employment protection legislation was supposed to be counterbalanced by providing improvements to temporary and part-time workers, supporting life-long professional training which facilitates changes of jobs, more favourable regulation of working time, and additional social benefits. In December 1995 Ad Melkert presented a memorandum *Flexibility and Security*, on the relaxation of the employment protection legislation of permanent workers, provided that temporary workers got regular employment status, without however adopting the concept of flexicurity as such. By the end of 1997 the Dutch parliament accepted flexibility/security proposals and shaped them into laws which came in force in 1999.

The OECD (2004b: 97–98) ascribes the flexicurity to Denmark with its traditionally weak employment protection, highly developed social security, and easiness to find a job; see also Madsen (2004) and Breedgaard et al. (2005). Regardless of the priority in inventing the word *flexicurity,* both countries were recognized as 'good-practice examples' (Braun 2001, van Oorschot 2001, Kok et al. 2004) and inspired the international flexicurity debate. Although some authors still consider flexicurity a specific Dutch/Danish phenomenon (Gorter 2000), the idea spread all over Europe in a few years; for a selection of recent international contributions see Jepsen and Klammer (2004). At the Lisbon summit of 2000 the EU had already referred to this concept (Vielle and Walthery 2003: 2; Keller and Seifert 2004: 227, Kok et al. 2004), and after the meeting in Villach in January 2006 flexicurity became a top theme in the European Commission (European Commission 2006).

Although flexicurity is getting to be adopted as a European policy, there exists neither its 'official' definition, nor even an unambiguous idea of it, to say nothing of monitoring instruments (the first questions to be discussed at the governmental *Expert meeting on flexicurity strategies and the implications of their adoption at the European level*, Lisbon, September 25, 2006, were just on definitions, that is, the policy to be adopted at the European level is still ill-defined). This study attempts to fill in this gap by operationally defining flexicurity, and applying this definition to quantitatively investigate the related development in Europe. The flexicurity indices for European countries for the recent years are derived from several types of data available form the OECD, European Commission, and Eurostat.

The results are not encouraging. Contrary to theoretical opinions and political promises, the current deregulation of European labour markets is not adequately compensated by improvements in social security. Flexibilization resulted in an increase of unemployment and in a disproportional growth of the number of atypically employed (= other than permanent full-time, like part-time, fixed-term) or self-employed (Eurostat 2005, Schmid and Gazier 2002, Seifert and Tangian 2006). After the flexicurity advantages/disadvantages have been accounted proportionally to the size of the groups affected, the trends of average national figures turn out to be rather negative. The declared balance between advantages and disadvantages is illusory, because gains are smaller than losses and winners are fewer than losers.

Thus the study warns against promoting flexicurity policies with no operational control and empirical feedback. To surmount negative effects, a so called *flexinsurance* is proposed, meaning that the employer's contribution to social security should be proportional to the flexibility of the contract/risk of becoming unemployed. Besides, elements of the basic minimal income model are suggested to resolve contradictions between some European policies, another obstacle for correctly implementing flexicurity. Finally, constraining financial markets might be necessary to keep labour market performance under control.

An idea of flexicurity

To give an idea, flexicurity can be metaphorically characterized by analogy with the motto of Prague Spring 1968 'socialism with a human face':

Definition 1 (metaphorical) *Flexicurity is a flexibilization (= deregulation) of labour markets with 'a human face', that is, compensated by some social advantages, in particular, for the groups affected.*

The main distinction captured by this simplified definition is that flexicurity differs from unconditional deregulation in introducing compensatory measures in social security and employment activation. Specific understandings (definitions) of flexicurity may depend on flexibilization steps suggested, tempo of deregulation, particular social advantages proposed, and estimates of their compensatory equivalence. A consensus in balancing these factors is not a pure academic question but rather an issue for bargaining between governments, employers, and trade unions, similarly to collective agreements.

One may also distinguish between *static* and *dynamic flexicurity*. A static characterization 'flexicure country' means a weak labour market regulation combined with a generous social security and employment activation measures ('golden triangle'; see Madsen 2003, OECD 2004b: 97), as inherent in Denmark. A dynamic flexicurity relates not to a given state of a given country but to its flexibilization process compensated by some social advantages and activation programs, as inherent in the Netherlands. One can say that the Netherlands is not such a flexicure country as Denmark but pursues a more intensive flexicurity policy.

A more comprehensible definition of flexicurity is due to Wilthagen and Tros (2004: 169):

Definition 2 (conceptual) *[Flexicurity is] a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organization and labour relations 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.*

It is emphasized (p. 170) that flexicurity is not 'simply social protection for flexible work forces as Klammer and Tillmann (2001), Ferrera et al (2001) and many others tend to analyze it'. According to Wilthagen and Tros (2004: 167), flexicurity policies aim at increasing the competitiveness of European economies by their further liberalization, attaining a compromise between employers, who seek for the deregulation of labour markets, and employees, who wish to protect their rights. It explicitly manifests itself in the description of flexicurity as a flexibility versus security trade-off (cf. with the word 'deliberate' in the above definition); see Visser and Hemerijck (1997: 44), Wilthagen and Tros (2004: 171), Kronauer and Linne (2005), and Ramaux (2006).

Let us consider notions *Flexibility* and *Security* in some detail to better understand which trade is proposed. The *Flexibility* stands for a multivariate aggregate which, according to the OECD (1989: 13–20), includes:

- *External numerical flexibility* (*employment flexibility* by Standing 1999: 101–114; *numerical flexibility* by Regini 2000: 16, *external quantitative flexibility* by Vielle and Walthery 2003:8) defined as the employer's ability to adjust the number of employees to current needs. In other words, it is the ease of 'hiring and firing' which manifests itself in the mobility of workers between employers (external job turnover).
- *Internal numerical flexibility* (*work process* or *functional flexibility* by Standing 1999: 114–116; *temporal flexibility* by Regini 2000: 17, *internal quantitative flexibility* by Vielle and Walthery 2003:8) which is the employer's ability to modify the number and distribution of working hours with no change of the number of employees. It appears in shiftworking, seasonal changes in the demand for labour, weekend/holiday working, overtime and variable hours, see also Keller and Seifert (2004: 228).
- *Functional flexibility* (*job structure flexibility* by Standing 1999: 117–124; *internal-functional flexibility* by Keller and Seifert 2004: 228, *internal qualitative flexibility* by Vielle and Walthery 2003: 8), that is, the employers' ability to move their employees from one task or department to another, or to change the content of their work. It is reflected by the mobility of workers within enterprises (internal labour turnover), see also Regini (2000: 16).

- *Wage flexibility* (*flexible* or *variable pay* by Wilthagen and Tros 2004: 171), which enables employers to alter wages in response to changing labour market or competitive conditions. Typically, employers seek for applying individual performance-linked rewarding systems additionally to (or instead of) usual collective agreements independent of individual performance, see also Regini (2000: 16–17, 19–21).

- *Externalization flexibility* (*external functional flexibility* by Keller and Seifert 2004: 228; one of constituents of *job structure flexibility* by Standing 1999: 123*; external qualitative flexibility* by Vielle and Walthery 2003: 8, that is, the employers' ability to order some works from external workers or firms without employment contracts but with commercial contracts in such forms as distance working, teleworking, virtual organizations, and *entreployees*, that is, self-entrepreneurial activities, see Pongratz and Voß (2003).

The notion of *Security* also includes several issues. For instance, Standing (1999: 52) enumerates seven types of security. They are not all relevant to the flexicurity debate, like *labour market security* through state-guaranteed full employment in socialist countries. Within the debate Vielle and Walthery (2003: 18–19), following Dupeyroux and Ruellan (1998), focus the attention at compensatory functions of securities in case of unemployment, illness, advancing age, maternity, invalidity, as well as exceptional medical or family burdens (decommodification in the sense of Esping-Andersen (1990)). More specifically, Wilthagen, Tros and van Lieshout (2003: 4) restrict consideration to the following four types of security:

- *Job security* (*employment security* by Standing (1999: 52)), `the certainty of retaining a specific job with a specific employer' . It is guaranteed by the protection of employees against dismissals and against significant changes of working conditions. This is the main subject of the employment protection legislation.
- *Employment/employability security* (*job security* by Standing (1999: 52)), the `certainty of remaining at work (not necessarily with the same employer)'. It means the availability of jobs for dismissed and unemployed, corresponding to their qualification and previous working conditions. The employability of job seekers can be improved by life-long professional training which can be offered both by employers and by training programs within active labour market policies; see Keller and Seifert (2004: 235). Tros (2004: 5) also mentions *entreployees*, organization of firm-firm job pools, and facilities for work-work transitions.
- *Income (social) security*, the `income protection in the event that paid work ceases'. Standing considers it more generally as protection of income through minimum wage machinery, wage indexation, comprehensive social security, including progressive taxation, provisions for old age (post-employment security by Keller and Seifert 2004: 236–238), etc.
- *Combination security* (not considered by other authors cited), 'the certainty of being able to combine paid work with other social responsibilities and obligations. This last form of security cannot be traced back to the other forms of security'. Tros (2004: 5) explains it further as a work-life balance, work-family balance, early flexible part-time retirement, flexible working hours, and leave facilities.

Thus, a flexicurity policy is imagined as an increase in the five types of flexibility compensated by improvements in four types of security.

Tracing flexicurity trade-offs with matrices

Matrices like in Table 1 are often suggested 'as a heuristic tool to trace flexicurity policies as specific trade-offs' (Wilthagen and Tros 2004: 171). The cells of the table show policy measures relevant to the intersecting types of flexibility and security. Some measures are multi-relevant, like *entreployees*, appearing at several row/column intersections. Such tables well illustrate the compound structure of *Flexibility* and *Security* but at a closer look fail to describe flexicurity trade-offs.

Firstly, there is no space for locating deregulation-only measures or purely security innovations. In particular, the Dutch Law on Flexibility and Security summarized in Table 2 (by the same authors) cannot be inscribed into Table 1. The Dutch Law consists of a number of items, each contributing either to flexibility, *or* to security. The cells of Table 1, on the contrary, combine certain types of flexibility *and* security simultaneously.

Secondly, Table 1 classifies policy measures into flexibility/security types instead of describing the flexibility/security compensation (trade-off). Such a simultaneous classification makes policy measures ambiguous (in favour of flexibility or security?) which, concealing the compensation issues, creates an illusion of a 'deliberate' solution. Moreover, debits can be presented as credits following the proverb 'Every cloud has a silver lining'.

For instance, consider 'Firm-firm job pools' at the intersection of row 'External numerical flexibility' and column 'Employment security'. If it is a flexibility measure to 'softly' dismiss workers (it stands in the row 'External numerical flexibility') then there should be an equivalent social compensation which is missed. If it is a security measure against easy dismissals (it stands in the column 'Employment security') then it is too weak because it provides poorer career opportunities than retaining the same job. If it is thought to combine flexibility and security then the degree of compensation should be indicated.

Another way of classifying (static) flexibility/security combinations has been used by Sperber (2006) with a reference to ILO (Auer 2005, Auer and Cazas 2002) and OECD (2004b). Table 3 classifies countries with respect to two indicators: strictness of employment protection legislation (EPL) and of social protection (UIB —unemployment insurance benefits). Here, each matrix dimension represents *two grades of one indicator* rather than *several types of flexibility or security.* Besides, countries are specified with unemployment rate regarded as an evaluation measure of institutional arrangements (Blanchard 2004, OECD 2004b). Other evaluation measures can be GDP growth (Pissarides 2000–2001, Blanchard 2006), job security (Auer and Cazas 2002), or some political criterion.

At the same time, Table 3 is not appropriate for displaying several flexibility or security types as Table 1. Besides, Table 3 can be misleading, prompting (due to evaluation in terms of labour market performance) that the less regulation the better (unemployment is lower), which is not applicable to all countries.

Thus, Wilthagen's matrix emphasizes the many-sidedness of flexibility and security but does not reflect flexibility/security compensation rates to trace trade-offs. The ILO matrix is aimed at flexibility/security evaluation but fails to operate on more than one flexibility and one security dimension, and the flexibility/security evaluation can be tendentious.

Table 1. The matrix aimed at tracing flexibility versus security trade-offs with a flexicurity policy for older workers as given by Tros (2004)

	Job security	Employment security	Income security	Combination security
External numerical flexibility		Firm-firm job pools Facilities work-work transitions Older enterployees	Retirement arrangements	
Internal numerical flexibility	Part-time work Flexible retirement Part-time enterployees		Flexible retirement	Part-time retirement Flexible age (pre-pension Flexible working hours Leave facilities
Functional flexibility	Education/training Adaptation in working hours/ tasks	Education/training Seniority/bridge works Job rotation Age-aware career and job structures		

Table 2. The Dutch Law on Flexibility and Security (extraction) from January 1, 1999, as given by Wilthagen and Tros (2004), which cannot be inscribed into Table 1

Flexibility	Security
• Adjustment of the regulation of fixed-term employment contracts: after 3 consecutive contracts or when the total length of consecutive contracts totals 3 years or more, a permanent contract exists (previously this applied to fixed-term contracts that had been extended once). • The obligation of temporary work agencies (TWA) to be in possession of a permit has been withdrawn. The maximum term for this type of employment (formerly 6 months) is abolished as well. • The notice period is in principle 1 month and 4 months at maximum (used to be 6 months).	• Introduction of so-called presumptions of law which strengthen the position of atypical workers (regarding the existence of an employment contract and the number of working hours agreed in that contract); the existence of an employment contract is more easily presumed. • A minimum entitlement to three hours' pay for on-call workers each time they are called in to work. • Regulation of the risk of non-payment of wages in the event of there being no work for an on-call worker: the period over which employers may claim that they need not pay wages for hours not worked has been reduced to six months. • A worker's contract with a TWA is considered a regular employment contract; only in the first 26 weeks are the agency and the agency worker allowed a certain degree of freedom with respect to starting and ending the employment relationship. • Special dismissal protection has been introduced for employees engaged in trade union activities.

Table 3. Institutional arrangements and unemployment rate (Sperber 2006, referring to ILO)

Social security: UIB (unemployment insurance benefits)	Flexibility: Strictness of EPL (employment protection legislation)	
	Low	High
High	Denmark Employment protection 8 Social protection 27 Unemployment rate 4.4%	France Employment protection 21 Social protection 20 Unemployment rate 9.3%
Low	USA Employment protection 1 Social protection 3 Unemployment rate 4.0%	Japan Employment protection 14 Social protection 4 Unemployment rate 4.7%

Monitoring flexicurity as trajectories in a policy space

A practical instrument for tracing flexicurity policies should combine advantages of both representation tools given by Tables 1 and 3 and at the same time enhance the dynamic aspect of flexicurity. To obtain such a **monitoring instrument** make two dimensions of Table 3 to be continuous axes. The resulting two-dimensional plane is shown in Figure 1. The frontal horizontal axis *Strictness of EPL* displays the strictness of employment protection legislation measured in some conditional %. The strictness grows from left to right, implying flexibility at the left hand and rigidity at the right hand:

$$\text{Flexibility} = 100\% - \text{Strictness of EPL} .$$

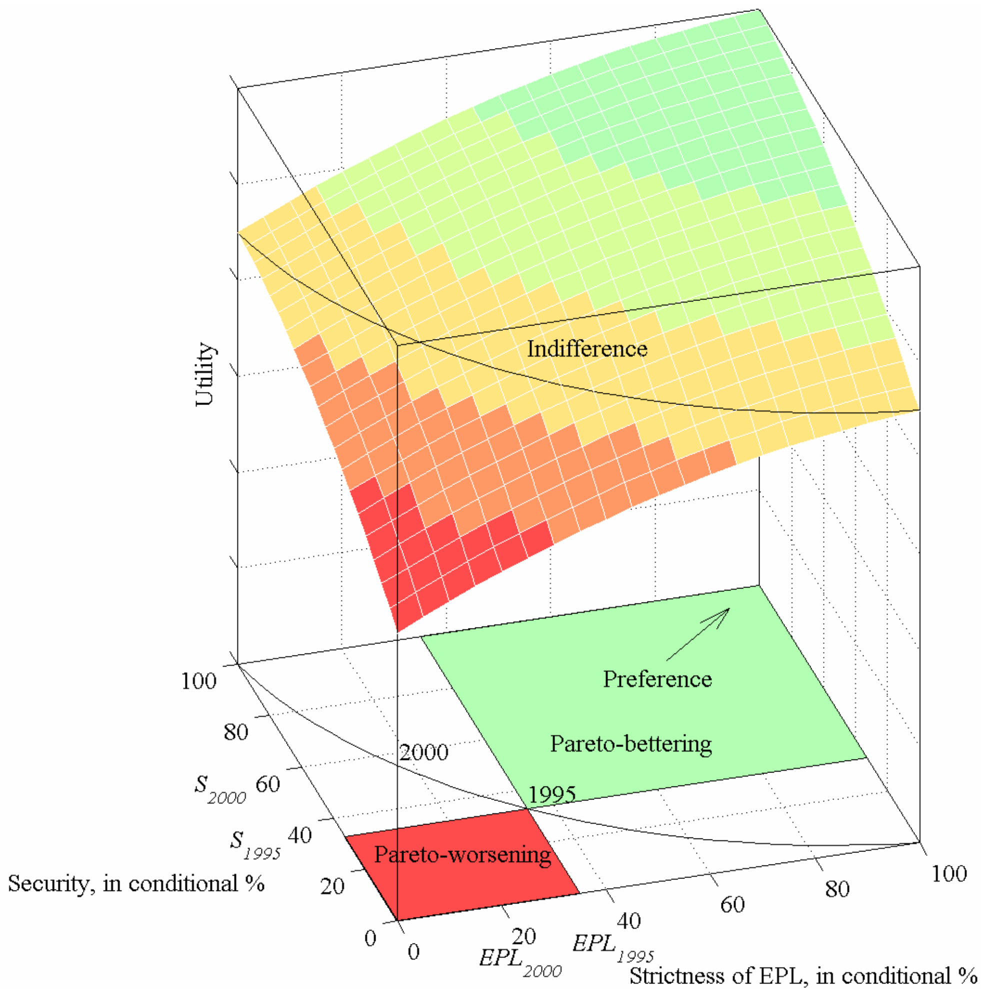
The second axis *Security* shows the aggregated social security also measured in some conditional %. States of the society are depicted by points (vectors) in the two-dimensional plane *Strictness of EPL–Security*. Each country, being specified with two indicators, can be depicted as a vector in this plane.

If five types of flexibility and four types of security should be considered as in the Wilthagen matrix, then the horizontal axes in Figure 1 split into five flexibility and four security axes, respectively. The horizontal axes in Figure 1 can be regarded as aggregates of several dimensions.

In the given paper we consider but two main factors of flexicurity, *Strictness of EPL and Social (income) security*. Recall that the flexicurity debate originates from claims to relax the EPL which constrains the external numerical flexibility. Consequently, the *Strictness of EPL* can be regarded as an indicator of the *External numerical flexibility* which plays the key role in the debate. The strictness of EPL and generosity of social security benefits are often regarded as main regulators of labour markets (Blanchard and Tirole 2004).

To speak of a trade-off, one has to assume a social preference. A preference is usually represented by a utility function which takes greater values at more preferable points and remains constant at equivalent points joined into *indifference curves* (= trade-offs). The indifference curves are but points of the same height at the utility hill; see Figure 1. The utility function implements the evaluation measure, and remaining at indifference curves means that a decrease in employment protection is 'deliberately' compensated by an increase in social security.

Figure 1. A flexicurity policy along a tradeoff 'Flexibility versus security'



For, instance, suppose that a country in 1995 and in 2000 is characterized by vectors 1995 = (EPL_{1995}, S_{1995}) and 2000 = (EPL_{2000}, S_{2000}), respectively. If the flexicurity policy is implemented correctly then the vector 2000 lies in the indifference curve through 1995 as in Figure 1. If vector 2000 lied in the red Pareto-worsening domain (more flexibility under no improvement in security) then it would mean that a deregulation-only policy takes place.

Such a representation allows us to introduce an operational definition of flexicurity.

Definition 3 (operational) *A 'flexicure' country' is the one which vector is close to the edge 'high flexibility–high security' of the flexibility–security rectangle. A flexicurity policy means a motion of the country's vector along an indifference curve of social utility towards higher flexibility and higher social security.*

This definition covers both static and dynamic aspects of flexicurity. Indifference curves incorporate the flexibility-security compensation rates. Since a vector space can have an arbitrary number of dimensions, several types of flexibility and security can be considered.

The social utility function can reflect different viewpoints with particular compensation rates (= trade-offs, as understood either by the EU, or by national governments, or by trade-unions), emphasize certain aspects of social protection, or it can be a macroeconomic indicator depending on both factors, like unemployment rate or GDP growth.

The agreement that flexibility must be compensated by security implicitly means that the more employment and social protection, the better (otherwise what is the compensation for?). In turn it implies that the Pareto-worsening and Pareto-bettering domains (directions of simultaneous deterioration and simultaneous improvement, respectively) are common to all countries, being independent of the shape of utility hill. It holds even if utility functions of European countries are not specified.

Empirical investigation

As follows from the previous section, we need empirical indicators of flexibility and security. For the labour market flexibility, use the (OECD 1999, 2004b) indicator 'Strictness of employment protection legislation' (EPL).

The OECD indicators reflect institutional EPL-levels for permanently employed, temporarily employed, and difficulty of collective dismissals for both groups. OECD defines the national EPL-level as a weighted sum of these indicators with 'somewhat arbitrary' weights 5/12 and 2/12 (OECD 1999: 115, 118). To eliminate the arbitrariness, we weight these indicators proportionally to the size of corresponding groups (yearly data on their size are available from Eurostat 2004). Thus the factual national average reflects institutional changes (laws) and mobility between employment groups[1]; see Tangian (2004a–b, 2005a) for details.

Define the second indicator, 'Social security', basing on the OECD (2002) summary of social security benefits; for the updated regulation see European Commission (2004). The OECD understands social security as a compound of five social security benefits:

- unemployment insurance,
- public pensions,
- paid sick leave,
- paid maternity leave, and
- paid holidays[2].

Similarly to the EPL indicator, we compute the social security national average with respect to the size of employment groups with different eligibility. Within the flexicurity debate, Klammer and Tillmann (2001: 514) and Hoffmann and Walwei (2000) classify employment with respect to four dichotomic indicators:

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[1] To give an idea of the interaction of institutional and mobility factors consider an example. Suppose that there are two groups of unemployed, of high-aided who get 700 EUR a month (90%), and of low-aided who get 300 EUR a month (10%), giving the national average aid 700*0.9 + 300*0.1 = 660 EUR/month. Let there be a 10%-increase of aid for all, but due to mobility the first group is reduced to 50% and the second increases up to 50%. Then the national average is 770*0.5 + 330*0.5 = 550 EUR/month. Thus, regardless of general institutional improvement by 10% the national average decreases due to mobility from 660 to 550 EUR/month (= by 16.6%).

[2] Entitlement to paid holidays is usually not considered within the flexicurity debate. It is not quite logical. Securities are aimed at compensating income losses and exceptional medical and family burdens, including vacations. Therefore, no entitlement to paid holidays discriminates those flexibly employed who work few hours, under short-time contracts, or self-employed, which should be taken into account.

- permanent/fixed-term,
- full-time/part-time,
- employed/self-employed, and
- in agriculture/not in agriculture[3].

The national social security indicator is derived from five single-benefit indicators computed for each employment group and weighted proportionally to their size (the corresponding statistical data are available from Eurostat 2004). Similarly to the previous EPL-indicator, we obtain the factual rather than purely institutional national average; see Tangian (2004 and 2005a).

As for country's social utility functions, it is not necessary to specify them, because, as we show, the country trajectories go in the Pareto-worsening domain (deregulation with no social security compensation), common to all social utility functions.

Figure 2 is a **map** of our policy space. It corresponds to the horizontal plane of Figure 1, *Strictness of EPL–Security*. The **compass** in the bottom-left edge of Figure 2 shows the cardinal points. The indicators of strictness of EPL and of social security play the role of **navigation instruments**, with which the location of European countries in the policy space is determined. It allows us to trace their dynamical trajectories (up to the year 2003, starting however at different years, depending on data availability).

The *flexicure* countries with high flexibility and high security are located top-left (Denmark and Finland). The *inflexicure* countries with low flexibility and high security are located top-right (Sweden and the Netherlands). The United Kingdom with high flexibility and low security is located left-bottom and can be called *flex-insecure*. Spain, Portugal, and Czech Republic with a strict employment protection and low security are located bottom-right and can be called *inflex-insecure*.

The simplest social utility function $u = (Strictness\ of\ EPL + Security)/2$ is shown by indifference lines. The social preference increases in the ‘North-East’ direction, decreases in the ‘South-West’ direction, and remains constant along the diagonal indifference lines. The pursuing a flexicurity policy means the direction of a country’s trajectory towards the ‘North-West’. It is inherent in Denmark in the 1990s and the Netherlands in the late 1990s, when the flexicurity debate was initiated. Since the exact slope of indifference curves is not known, it is unclear whether the flexibility-security compensation was 'deliberate', but at least a flexicurity development cannot be denied.

With the only short-time exceptions for Denmark and Netherlands, all trajectories have 'South-West' directions, meaning deregulation with no compensation under all imaginable social utility functions. **Thus, the deregulation-only policies are unambiguously prevailing, whereas the much promoted flexicurity is practically invisible.**

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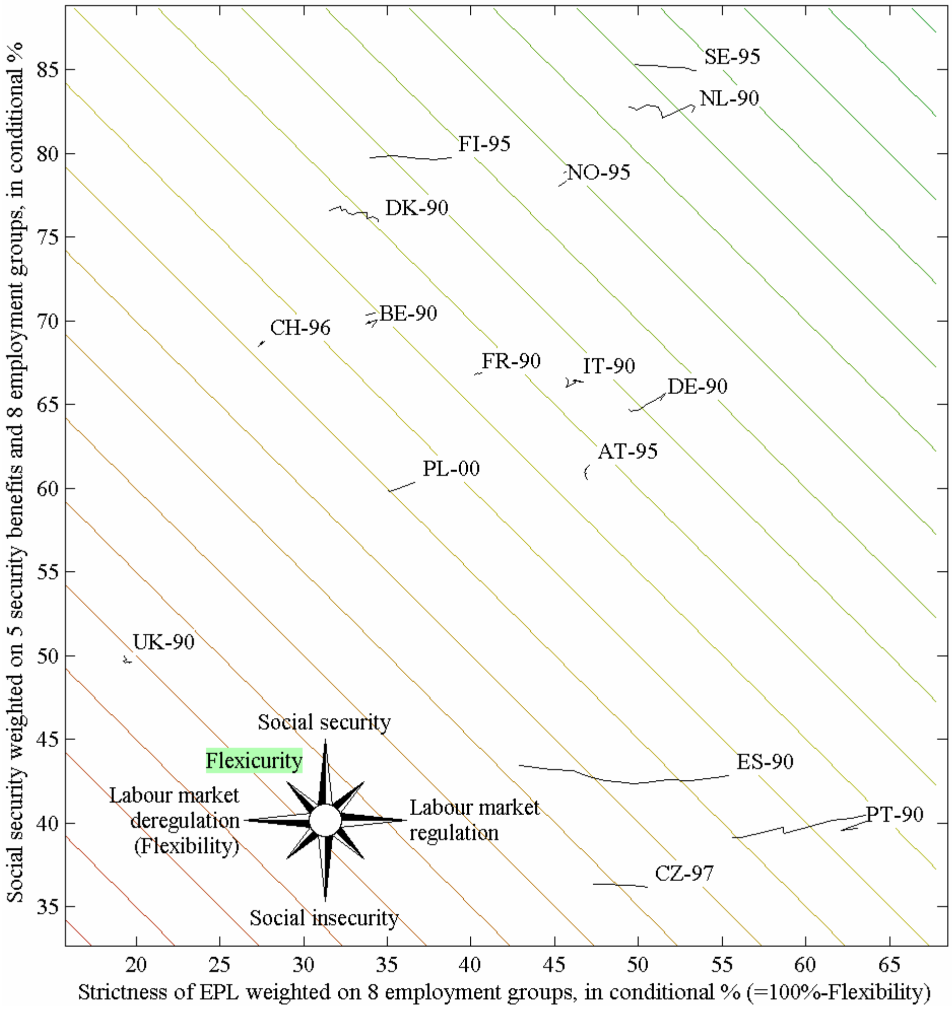
[3] The authors cited consider no labour market outsiders as suggested by Wilthagen and Tros (2004). Respectively, we do not consider them here, also because flexicurity deals with the flexibility of *employment* relations.

Figure 2. Flexibility-Security country trajectories for all employment groups (neo-liberal perspective) starting in different years (due to data availability) and all ending in 2003. The diagonals in the background conditionally show neo-liberal indifference lines



Trade-unionist viewpoint

Up till now the relaxation of EPL has been assumed tradable against social security advantages. However, from the viewpoint of trade unions, first of all French and German, giving up labour rights for social benefits is not appropriate. Even if each particular compromise seems more or less fair, their succession can lead away from the social status quo and the employees can finally get nothing or very little for their pains. It can run as in the known tale about a man who exchanges a horse for a cow, then the cow for a sheep, and so on until he finds himself with nothing but a needle which he loses on the way home.

Trade unions doubt that better social guarantees can adequately compensate a higher *risk* to lose a job. The emerging disadvantages can be compensated only partially but never completely. Besides, entrusting the workers' welfare to the welfare-giver, the state, is unreliable. Every political change may result in social cuts (as now in Germany). Employment protection, on the contrary, guarantees jobs and, consequently, a stable income even during recessions and political crises (Bewley 1999).

The conception of flexicurity as proposed by neoliberals may look adequate: one commodity (labour rights) is exchanged for another commodity (social security), and the exchange rate should be negotiated. This apparent natural prerequisite leaves trade unions with no chance to win. In fact, the default assumption that everything can be bought and sold is not always true! In a sense, it is suggested that workers' social health (= the right to remain at work) be exchanged for a treatment (= social care in the form of advanced social security benefits). In other words, give your working hand and get prosthesis instead. However: Can prosthesis, whatever its value, substitute a healthy hand?

From the viewpoint of neo-liberals, flexicurity is a policy to reconcile employees with the actual labour market deregulation. The deregulation is thought to improve the competitiveness of European economy and to enhance the sustainable development. All of these are required to become economically more powerful.

From the trade-unionist viewpoint, the sustainable development is necessary as long as it improves living and working conditions *of employees*. If under 'sustainable development' the worker's well-being is not enhanced and a better labour market performance (if any) is attained at the price of stress and lack of confidence in the future then the 'sustainable development' can be put in question. Indeed: Are higher industrial productivity and competitiveness the prime human goals? Why sustainable development is put beyond social values? In other words, is it more important to be economically rich rather than socially healthy?

There are also doubts in the social fairness of flexicurity. Every step towards a higher labour flexibility meets interests of employers. Business gets rid of restrictions, managers improve performance by rotating and squeezing personnel, and firms gain higher profits. All expenses are recovered by the state — costly reforms and additional social security benefits. Therefore, such a flexibilization scenario turns out to be a long-running indirect governmental donation to firms. Since the state budget originates from taxpayers, the employees are the ones contributing to the donation.

Therefore, trade unions are inclined to consider flexicurity as a measure to protect weak work forces but not at the price of charging 'normal' employees with disadvantages. The specificity of the trade-unionist viewpoint at flexicurity is reflected by the definition criticized by Wilthagen and Tros (2004: 170):

Definition 4 (trade-unionist). *[Flexicurity is] social protection for flexible work forces, understood as 'an alternative to pure flexibilization'* (Keller and Seifert 2004: 226), *and 'to a deregulation-only policy'* (Klammer 2004: 283); see also WSI (2000).

An empirical analysis as in the previous section but restricted to atypical employment shows some positive *average* trends in social security for atypically employed; see Tangian (2006). However, such improvements are mainly due to transitions from the group of normal employment to the one of temporary full-time employment. The relative growth of this most privileged group among atypical ones increases the average social security index of flexibly employed, even if there are no institutional changes. It is not necessary to emphasize that such an 'improvement' at the price of reducing the share of normal employment does not make trade unions very happy.

Perspectives of unconditional deregulation

The Club of Rome foresees three scenarios of the world future with regard to overpopulation, shortage of resources, and ecological problems (Radermacher 2006a–b):

1. A big war with a drastic reduction of the world population (15% likelihood)

2. The rich benevolently sacrifice their excessive well-being to help the poor (35% likelihood)
3. The 'brasilianization' of the world, meaning that the world population splits into a relatively small group of rich (people, countries) and a large group of poor (50% likelihood)

The contemporary development indicates rather at the third scenario (United Nations Development Programme 2002). As mentioned in Introduction, living standards, even in the United States, visibly improve exclusively for top earners (Krugman 2006), the poverty problem is not solved, and inequality even increases (Stiglitz 2002). Therefore, the much promoted sustainable development is aimed not only to 'meet the challenge of India and China' (Coats 2006: 5, 23, OECD 2005: 25, UK Presidency of the EU 2005) but primarily to sustain the superiority of the rich over the poor. Contrary to declarations made during the UK Presidency of the EU (2005), the sustainable development is not an objective targeted at supporting the European social model with flexibilization being an instrument, but rather an instrument itself for the goal which is not explicitly formulated. Indeed, if the European well-being was higher before the 'sustainable development', what is the latter for?

If economy is not an objective but an instrument of politics, and if the sustainable development with obligatory flexibilization is really intended to enhance the European social model then flexicurity should be implemented with clear social priorities. However, as follows from our empirical study, the situation is far from being satisfactory. Instead of compensation of flexibilization by advantages in social security, the deregulation-only policy is absolutely prevailing. Let us outline briefly what can happen if the labour market deregulation in Europe will remain unconstrained and not sufficiently compensated by advantages in social security.

Career prospects. As already mentioned, flexible employment destroys career prospects. Indeed, each new job means a new start, often implying a starting salary, especially if an employee is little experienced in new tasks. Thereby, a higher risk of interrupted employment under flexibilization, or changes of employer increases the risk of remaining at the bottom of professional hierarchy.

Individualism and climate at work. The enhanced mobility with frequent changes of working teams means the non-belonging to any collective. It results in an individualistic psychology and no solidarity. If earnings and competitiveness are becoming the only sense of life, the social climate at work can hardly be good and relations between colleagues are unlikely to be more than formal.

Loss of self-identification and destruction of civil society. Frequent professional reorientations inherent in flexible work lead to the loss of professional identity and of the feeling of social significance. People with no social self-identification can hardly bare social responsibility and are unlikely to constitute a civil society.

Family life. Income insecurity, mobility of the workplace, and individualistic psychology obviously complicate family life. If both partners are flexibly employed then the difficulties are multiplied. The frequent necessity of changing schools is not the best option for children either. Marriages which require settling down are little compatible with professional activities, and the marriage age grows correspondingly.

Demography. Lowering birth quotas caused by aging marriages can create demographic problems. The percentage of aging population will grow, and that of employable population will decrease. The decreasing contributions to social security will sharpen the deficit of retirement funds. On the other hand, the demand for labour force will grow. In turn, it can stimulate additional immigration with a number of side effects.

Increasing inequality and middle class. Destroying career prospects of employees means an increasing fraction of population under in-work poverty who are unable to reach the middle-class standards. For instance, the actual German debate on poverty highlights 6.5 Mio-large underclass (Gammelin 2006, König 2006, Schmidt 2006). The middle class will vanish, and the society will fall into top and low clans with little transitions between them and sustained inequality.

Thus, we come back to the third scenario of the Club of Rome. If flexibilization will not be constrained and flexicurity will not be implemented appropriately, the European social model will not survive.

Contradictions between EU policies and possible solutions

Keeping the 'apocalyptic visions' of the previous section aside, let us consider more specific and topical problems. Namely, there are several European policies which are inconsistent with each other:

European welfare policy which suggests certain living standards independent of employment. It assumes a stable labour market performance and is backed up by a strong social security system (Esping-Andersen 1990, Auer and Gazier 2002, Ramaux 2006).

Flexibilization of employment relations (3rd guideline for European Employment Strategy; see European Commission 2005) is aimed at improving the competitiveness of European economy and sustainable development. In particular, it means a relaxation of employment protection legislation. This relaxation contradicts to the employment security assumed in the conception of welfare state.

Flexicurity (European Commission 2006) The above mentioned contradiction is hoped to be resolved by compensating the relaxation of labour protection by advances in social and employment security, imagined as a *flexicurity* trade-off.

Make work pay (8th guideline for European Employment strategy, European Commission 2005) is aimed at stimulating the unemployed to active labour market participation. Similarly to flexicurity, the 'make work pay' policy is also a trade-off, but between the social protection and maximizing the gain from moving to work (OECD 2004a: 92). The policy 'make work pay' contradicts flexicurity, because it includes reductions of security benefits which, according to flexicurity, should be improved.

European policy of respecting civil society initiatives assumes a significant influence of non-governmental organizations on policy-making. In particularly, the opinion of trade unions always played an important role in labour market regulation. In recent neoliberal discussions the role of trade unions and collective agreements is often put in question as an obstacle for flexibilization.

As one can see, the policies enumerated contradict each other. Since they interact through the social security system, their consistency means the consistency with the social security. Or, the social security should be made consistent with these policies.

The social security system has been developed for many decades. It is overcomplicated especially in interaction with the tax system, and it is quite difficult to change one of its elements without affecting others. The unprecedented decline of European social security in the background of institutional improvements (Tangian 2005b) shows that only a radical reform can make it actually efficient and resolve policy contradictions. Moreover, the level of social security reform should match the level of changes in labour market regulation.

Otherwise, the situation will be as the one mocked by Saltykov-Shchzedrin (1826–1889): 'How to make an unprofitable enterprise profitable, not changing anything in it?'

A possible solution could be *flexinsurance* together with elements of the *basic minimum income model*.

The flexinsurance assumes that the employer’s contribution to social security should be proportional to the flexibility of the contract (Tangian 2005). It has the following advantages:

- A higher risk of atypical employees to become unemployed is compensated, and contributions to social security are made adequate.
- Progressive contributions motivate employers to hire employees more favourably, but without rigidly restricting the labour market flexibility.
- Flexinsurance can be a flexible instrument for 'regulating the labour market deregulation' which current adjustments (contributions to social security depending on the type of contract, quotas, severance pay, unemployment benefits) need no legislation changes but just administrative decisions.

Note that a kind of firing insurance (*Abfertigungsrecht*) has been already introduced in Austria in the form of individual saving accounts (OECD 2006: 99). However, their regulation is not conditioned by the type of contract and does not affect employers.

The basic minimum income model assumes a flat income paid by the state to all residents regardless of their earnings and property status (Keller and Seifert 2005: 320). Traces of this model appear in some social security branches like child care allowances or old-age provisions. For instance, *Kindergeld* in Germany is paid to all parents. Some basic minimum options are practiced in Switzerland for retirement (Brombacher-Steiner 2000). In a sense, the conception of basic minimum income in incorporated in the minimum wage (Schulten et al 2006). The additional budget expenditures for the basic minimum income can be covered by

- flexinsurance,
- higher taxes of high-earners (to subtract the flat income), and
- funds released from reducing the number of civil servants currently working in social security (since the system becomes more simple).

As we show next, flexinsurance and elements of basic minimum income model make the European policies no longer contradictory.

European welfare policy. The basic minimum income model meets the concept of welfare state since it guarantees some unconditional living standards and discharges social tension.

Flexibilization of employment relations. Being no longer restricted by law, flexibilization is constrained but financially within the flexinsurance, which is much 'softer' than by rigid juridical prohibitions.

Flexicurity. The basic minimum income model means a significant progress in social security and therefore meets the idea of the flexicurity trade-off: 'more security for more flexibility'. At the same time, flexinsurance can 'softly' regulate flexibilization to keep the situation at the flexicurity trade-off.

Make work pay. Since the basic minimum model guarantees statutory payments regardless of income, moving to work means a pure profit. There can be no situations when moving to work is little attractive due to losing out-of-work benefits. On the other hand, the lack of social benefits excludes their penalty cuts. The penalty measures of the policy 'make work pay' are replaced by a more efficient benevolent motivation (cf .with A. Carnegie's 'There is no way to force somebody to do something other than to make to wish it'). Thereby the 'make work pay' work pay' policy gains from the measures proposed and becomes compatible with flexicurity.

Respecting civil society initiatives. Introducing flexinsurance means respecting the trade-unionist position on constraining the total deregulation of labour markets. Besides, the basic minimum income guarantees that unemployed do not accept any job offer, as intended by penalizing measures of the policy 'make work pay', and thereby will not become 'strikebreakers' in the long-running trade union struggle for good working conditions and fair pay.

The last but not least factor in preserving the European welfare state is **constraining the openness of European financial markets**. In fact, easy foreign investments actually mean easily moving jobs from Europe to other countries. Thereby, employers get a legal instrument to make pressure on European governments: 'If you do not relax employment protection according to our requirements we shall move jobs abroad'. Thereby, having liberalized finances, European governments paved the way to losing control over labour markets. Since the exit is usually where the entrance was, to get the control back, the financial markets have to be somewhat constrained. Certainly, if social priorities are respected sincerely and consistently.

Conclusions

In spite of a visible roll-back of European social security from the level of the 1980s (Ramaux 2006), most empirical studies fail to detect its substantial decline (Pettersen 1995, Taylor-Gooby 1998, Roller 1999, Van Oorschot 1999, and Mau 2001). The focus made on governmental expenditures for social support (for references see Adema and Ladaique 2005) is rather misleading because it does not take into account increasing living costs and flexibilization of employment relations with longer periods of unemployment and lower specific payoffs per capita/months. The illusion that social solidarity remains in force weakens the position of European welfarism and trade unions, making an impression that minor improvements are sufficient to adjust social security to current needs (Tangian 2005b).

Thus we have operationally defined flexicurity policies as flexibility-security directed country trajectories along trade-offs in the flexibility–security vector space. Flexibility is estimated with the OECD indicator of strictness of employment protection legislation. Security is estimated from eligibility conditions to five social security benefits as given by the OECD.

Unlike existing studies which focus exclusively on institutional changes, the given article attempts to measure employment protection and social security also with respect to the mobility between the groups affected, suggesting indices of the actual national average. Such indicators show that institutional improvements do not compensate the growing size of disadvantageous social groups. A kind of a debit-credit account shows that **gains are smaller than losses and winners are fewer than losers**. It results in a negative general balance, so that the concept of **flexicurity may not be holding up to its political promises and theoretical declarations**.

A possible **solution can be attained by *flexinsurance*** — easily updatable regulation of labour market in the form of insurance of flexible labour — and basic minimum income model. Besides their contribution to flexicurity implementation, they could solve some contradictions between actual European policies and between employers and trade unions. Constraining European financial markets could weaken the employers' pressure on European governments.

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