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SPERI Global Political Economy Brief No. 3

Where now for flexicurity?

*Comparing post-crisis labour
market policy changes in the
European Union.*

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Introduction

Since the financial crisis in 2008 debates relating to labour market reforms and regulation and spending on welfare have intensified across the EU. In line with austerity programmes designed to reduce both borrowing and debt, European governments have faced pressures to reform social policy and reduce welfare spending. In addition, increased unemployment, which has affected young people in particular, has encouraged governments to weaken employment protection legislation. However, across Europe the nature and source of the pressures have varied. For instance, those countries that have sought financial assistance from the European Commission, the European Central Bank (ECB) and the International Monetary Fund (the so-called 'Troika') have had limited discretion because of the strict requirement for reforms attached to their bailouts.

This widespread tendency to dilute employment protection legislation and reform social protections has had significant consequences for the EU's 'flexicurity' agenda, which underpins the European Commission's social policy and labour market programme. Pioneered by Denmark and the Netherlands in the 1990s, flexicurity comprises four inter-related components:

1. Flexible and reliable contract arrangements for employees.
2. Effective active labour market policies (ALMPs); programmes that intervene in the labour market to help the unemployed find work e.g. training schemes; support schemes such as job matching, counselling and coaching.
3. Comprehensive lifelong learning strategies to help people to improve their 'employability' e.g. adult education provision to improve knowledge and skills.
4. Modern social security systems that provide adequate income support.

As its name implies, flexicurity is based on the ideal that dynamic labour markets can operate with both flexible *and* secure attributes. This is based on the theory that reduced employment protections (in many cases the obligations of employers to their staff) should encourage employment growth, as firms face lower risks when making recruitment choices. While less employer obligations translates as low *job security* for workers, under flexicurity workers (in theory) should enjoy greater overall *employment security* throughout their life through the cushion of unemployment benefits and via well-funded and effective active labour market policies and lifelong learning support. These initiatives should allow workers to enhance their skills, which in turn increases their employability and ability to re-engage with a labour market.

In this new SPERI Global Political Economy Brief we assess progress towards flexicurity in countries within the EU both before and after the financial crisis of 2008, and argue that:

- Since the crisis, across Europe, *job security* has been reduced without steps having been taken to enhance *employment security*.

- Many countries have increased labour market flexibility by weakening and removing employee protections. Crucially, this widespread shift has taken place without an accompanying increase in support for active labour market programmes and lifelong learning.
- National governments have come under increased pressure for ‘supply side reform’ to increase greater competition in labour markets. This has been particularly apparent in Eurozone countries that have been subject to interventions by the Troika.
- Austerity has had, and remains to have, significant implications for the future of flexicurity. The policy trends we highlight demonstrate the subordination of social policy to economic policy.

Background

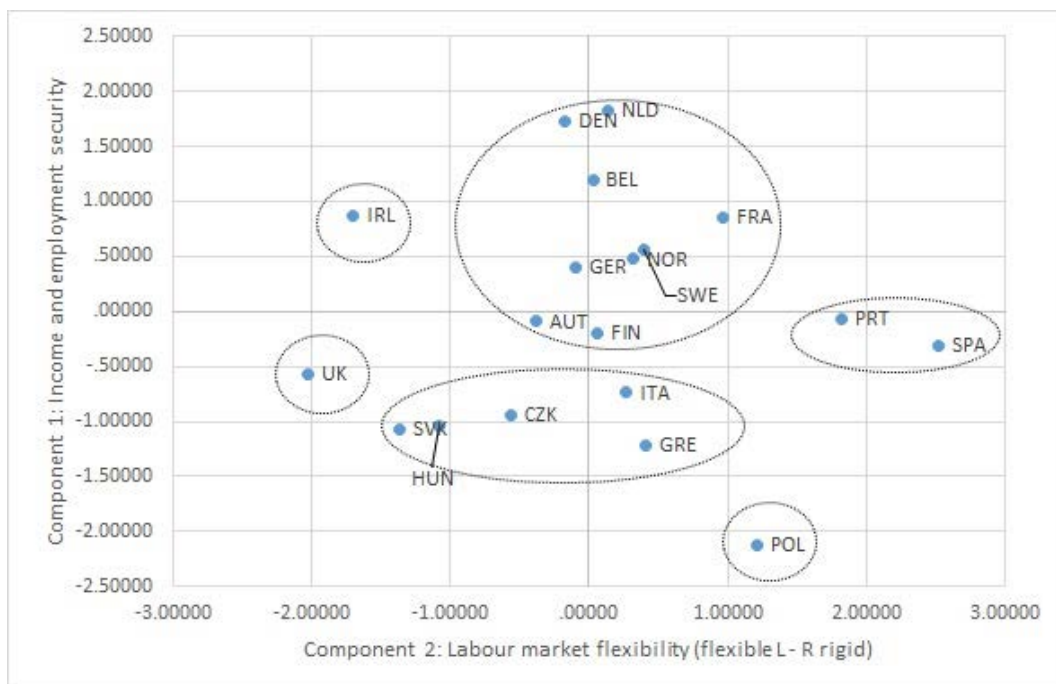
- Interest in flexicurity was initially stimulated by the experiences of Denmark and the Netherlands during the 1990s. Having previously experienced persistently high unemployment, both countries enjoyed among the lowest unemployment rates in Europe. The apparent cause was the implementation of policies aimed at bringing about flexicurity.
- Following the 2005 re-launch of the European Commission’s Lisbon Strategy flexicurity became prominent in the EU’s social policy agenda. The Commission encouraged member states to promote ‘employment security’ by pursuing active labour market policies and providing lifelong learning opportunities that would supposedly enable workers to enhance their ‘employability’.
- The Commission also became more sceptical about the benefits of employment protection legislation, claiming that strong protections encouraged employers to make use of temporary employment contracts and served to disadvantage people currently ‘outside of the labour market (e.g. young people).
- The Commission recognised that, because of differences in industrial relations, employment rights and welfare entitlements across the EU, member states would begin their efforts to deliver flexicurity from different starting points. Their ‘open method of coordination’ was supposed to encourage benchmarking between member states and the diffusion of good practices, but placed few obligations on national governments to implement specific reforms.
- However, since the financial crisis, the Commission and the European Central Bank have regarded social policy as an economic adjustment mechanism. As such, a set of instruments has been created to strengthen the power of the Commission and ECB to influence the social and economic policies of member states.
- The Euro-plus pact and so-called ‘six pack’ regulations (2011) introduced more stringent rules and penalties relating to fiscal governance, while the introduction of the annual ‘European Semester’ led to a more detailed and prescriptive approach to social policy reform.

- This tougher prescriptive approach has been seen most clearly in those Eurozone countries, such as Spain, Greece and Portugal, where strict social policy reforms have been expected as a condition for receiving bailouts or interventions in the bond market by the Troika.
- Across the EU, member states are now expected to respond to ‘country-specific recommendations’ that focus on measures related to economic growth and competitiveness, including the reform of employment protection legislation, active labour market programmes and unemployment benefits; all of which are core elements of the flexicurity agenda.

Evidence

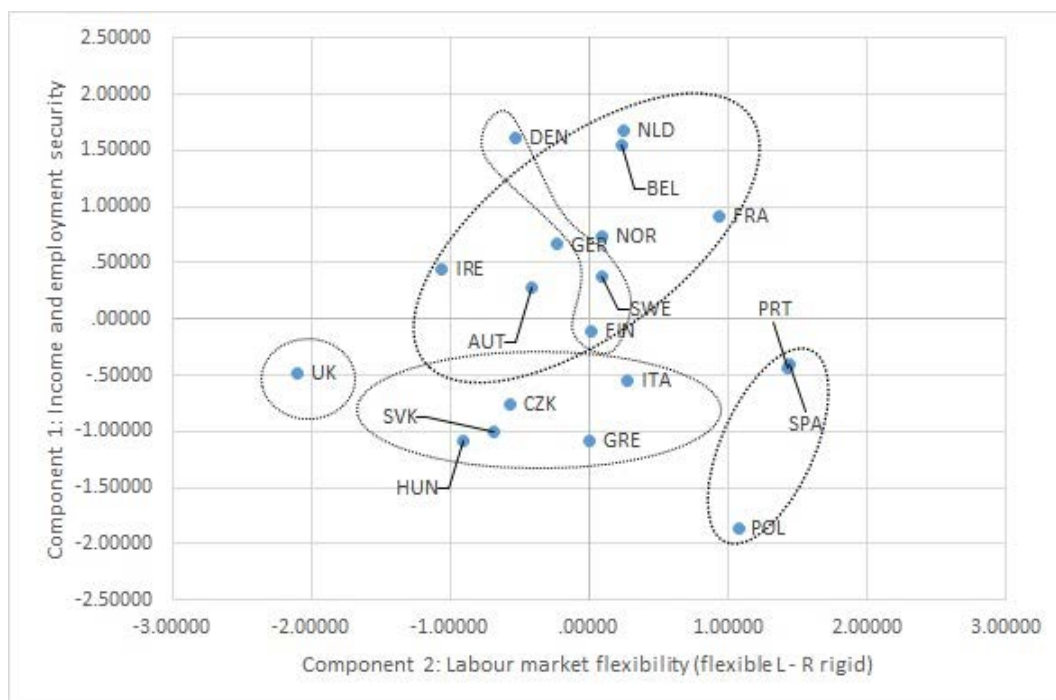
- Our analysis draws on variables which relate to the four key components of flexicurity. The variables included data from the Organisation for Economic Co-operation and Development (OECD) on employment protection legislation indicators for individual dismissals, collective dismissals and temporary employment, and net replacement rates. In addition we analysed Eurostat data relating to employees on short-term contracts, childcare provision, active labour market spending and lifelong learning participation rates.
- Our analysis identified three consistent components, which provide a relative measure of labour market flexibility, income and employment security and lifelong learning for 19 European countries. All are EU member states apart from Norway.
- Plotting these components in 2006 (i.e. before the start of the economic crisis) produces the following chart:

Figure 1: Flexicurity in 19 European countries in 2006



- Considering the social policies of the 19 countries in pre-crisis 2006 shows two large country clusters. The largest is a group of higher spending European countries that invest relatively high amounts in active and passive labour market measures (see vertical axis), with moderate labour market flexibility (horizontal axis). The second cluster includes countries within Central/Eastern Europe (Slovakia, Hungary and the Czech Republic) and the Southern economies of Italy and Greece.
- Spain and Portugal form a separate cluster characterised by relatively strong labour market regulation and moderate spending on social security. The UK and Ireland are outliers based on their flexible labour markets (i.e. weak employment protection) and moderate social security spending. Poland is also an outlier, marked by a relatively rigid labour market and low social security spending.
- The same analysis for post-crisis 2011 produces the following chart:

Figure 2: Flexicurity in 19 European countries in 2011



- Comparing the 2011 plot with the 2006 plot suggests that the social policies of a number of countries significantly altered during and since the financial crisis and recession:
- Notably Ireland has shifted to a more central position denoting a reduction in social security spending, but also a reduction in labour market flexibility. Portugal and Spain have also moved towards the centre of the graph, indicating a shift towards more flexible labour markets. An additional cluster is also evident in 2011, composed of Denmark, Sweden and Finland. This latter group is explained by (continued) high participation rates in lifelong learning post-2008 relative to other EU countries.

Analysis of policy changes since the crisis

The 'Anglo-cluster'

- After 2008 UK and Irish governments have sought substantial reductions in benefit spending and increased the conditionality of benefits through policies associated with 'workfare'. In Ireland this included the use of the JobBridge and Gateway schemes, while the Conservative-led coalition government in the UK pursued a workfare approach via their Work Programme, and a tougher sanctions regime.
- The UK weakened employment protection legislation after 2008 by, for example, increasing the minimum period of service needed to qualify for unfair dismissal, and introducing fees for Employment Tribunals. These policy directions contrast with Ireland where severance pay for workers has increased in recent years.
- Neither the UK nor Ireland invest considerably in active labour market programmes and in terms of lifelong learning, the UK's participation rate for inactive persons fell from 19% in 2006 to 9.6% by 2013. Conversely, in Ireland participation by inactive persons increased slightly from 7.8% in 2006 to 10.77% in 2013. Government policy changes may partially explain these changes. For instance, the UK government has substantially increased university tuition fees and scrapped the Train to Gain in-work training programme, whereas Ireland increased access to the Back to Education Allowance programme which covers tuition payments for welfare recipients entering full-time education.

Spain and Portugal

- The most substantial changes across the 19 countries were exhibited by Spain and Portugal. Both countries agreed to *Memoranda of Understanding* with the Troika, which set specific economic and social policy commitments in return for financial assistance.
- These commitments encouraged measures, in both countries, to create more flexible labour markets. Portugal weakened severance pay entitlements and made it easier for employers to lay-off workers. Spain made similar adjustments to employment law, including reducing the length of notice periods and compensation following unfair dismissal.
- The social security pillar of flexicurity has also been eroded. In Spain this included a lower calculation base for contributory benefits, the removal of social security subsidies and more restricted special benefits for older unemployed workers. Social reform in Portugal has followed a similar pattern, although attempts have been made to extend benefits coverage by lowering contribution requirements and including certain types of self-employed workers.
- A number of new active labour market initiatives have been introduced, many of them focussed on improving job prospects for young people. In Portugal this has involved a greater emphasis on vocational training and internship funding.

Northern European cluster

- Employment protection legislation has changed little in this cluster since the start of the crisis, although some countries have nevertheless introduced important reforms.
- Sweden, Germany, Denmark, Belgium and the Netherlands bolstered regulations relating to agency workers and those with fixed term contracts. Changes have been prompted by the need to implement the EU Directive on Temporary Agency Work (as in Germany and Denmark).
- There has been a shift towards greater conditionality and workfare oriented approaches to benefit entitlements in the exemplar flexicurity countries, Netherlands and Denmark (a tendency that was already well underway before the crisis). In Denmark post-crisis reforms included a substantial cut in the length of unemployment benefits and the method used to calculate benefits was altered to be based on a 12 week period before job loss rather than 3 weeks.
- The Netherlands and Denmark have maintained high rates of investment in active labour market policies and lifelong learning programmes since the start of the crisis, although in Belgium spending on ALMPs has fallen. Several countries in the cluster have cut relatively costly training programmes for unemployed workers (i.e. the model initially favoured by Sweden in the 1950s) in favour of employment assistance schemes.

Southern and 'Visegrad' cluster

- The relatively low spend on social security across the 'Visegrad' group of countries (Czech Republic, Hungary, Poland and Slovakia) has continued in the post-crisis period.
- However, following the crisis the Visegrad group initially enhanced worker protections for both regular and atypical forms of work. Measures included stronger protections for agency workers (introduced in Slovakia in 2008 and the Czech Republic in 2010) and a decrease in the permitted number of temporary contract renewals allowed by law (Slovakia, 2008).
- But since 2011 protections have been weakened. In Slovakia and the Czech Republic the maximum length of fixed-term contracts has been extended and dismissal protection for workers employed on regular contracts has been reduced. Greece also increased the maximum length of fixed-term contracts and has allowed employers to unilaterally transform full-time jobs into part-time jobs.
- Pension payouts upon retirement (replacement rates) fell considerably in Poland (45% to 38%) and Hungary (47% to 41%) between 2006 and 2011, while Slovakia experienced a more modest reduction in replacement rates (40% to 39%) and the Czech Republic saw increased replacement rates from 48% to 51%.
- As a result of conditions agreed with the Troika, Greece implemented swingeing cuts and restrictions on benefits, which led to a fall in the replacement rate

from 27% in 2006 to 21% in 2012. Conversely, Italy introduced a new, universal unemployment social benefit in the form of the *Assicurazione Sociale per l'Impiego* (ASPI) to supplement those involuntarily released from work.

- Spending on active labour market policies and lifelong learning participation has remained low for countries in this cluster. Despite the introduction of new active labour market programmes it is difficult to trace a long-term strategy in any of the Visegrad countries; this point is underlined by the low and fluctuating levels of investment in labour market services despite attempts to modernise employment centres in a number of countries (e.g. the amalgamation of unemployment supports/social benefits into 'one stop shops' – as established in the Czech Republic in 2007).
- Clearer efforts have been made to reduce segmentation in the labour market across the group, which includes greater support for parents and enhancements to 'back to work' strategies for parents, including an expansion of childcare/pre-school facilities in Hungary (2012) and Poland (2012/2013), an increase in parental benefits (Slovakia and Poland, 2012) and extensions to maternity leave (Poland 2012).

Conclusion

- The period since the financial crisis has witnessed an increase in pressure for supply side reform, which has been particularly apparent in countries that have been subject to interventions by the Troika.
- Many countries have taken steps in the five-year period between 2006 and 2011 to increase labour market flexibility to boost growth. Crucially, these shifts have taken place in the context of austerity and as such there has not been an accompanying increase in support and *spending* for active labour market programmes and lifelong learning.
- The changes that have taken place across Europe since the crisis demonstrate that job security has been reduced without steps having been taken to enhance employment security.
- Furthermore, in the five years since 2011 as austerity has continued to prevail across Europe, we would expect to see the trends we outline to have quickened and deepened. We predict that the significant policy shifts that were visible in Spain and Portugal between 2006 and 2011 are likely to have been replicated in other European countries, especially in Greece where ever-stringent expectations of reforms have been demanded by the Troika.
- The subordination of social policy to economic policy raises serious questions about the future viability of the flexicurity agenda. The implementation of the four pillars of the agenda by European member states will require the European Commission and national governments to remake the case for flexicurity. However, whilst European governments and the Troika remain committed to programmes of fiscal retrenchment the full-scale adoption of the flexicurity agenda, as originally conceived, seem a distant prospect.



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March 2016

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