

Summary

- Europe needs **modern labour markets** which give people greater security through better employment opportunities. This implies that **security based on extensive flexibility means more than just protecting existing jobs**. Rather, flexicurity entails **generating opportunities to substitute a disappearing job** as seamlessly as possible with a new job (external flexibility). In addition to strengthening external flexibility, flexicurity also involves mobility within an existing work relationship in order to address the threat of job losses.
- Labour market policy lies within the responsibility of the Member States. The task of the European Union is to flank and support Member States in their efforts to modernise their labour markets. In this regard, it must strictly observe the **principle of subsidiarity**. Harmonisation of national labour law systems would run counter to the principle of subsidiarity and interfere with tried and tested traditions and structures.
- The EU should work for full implementation of **Member States' self-commitments** within the Lisbon-Strategy, and at the same time promote the **exchange of best practice** within and beyond European employment policy. In addition, the EU must not thwart the objective of flexicurity with its own initiatives. **Member States urgently need space** to balance the necessary protection and the requisite labour market flexibility in line with national conditions.
- The concept of flexicurity is associated with four fundamental elements:
 - ▶ a **simple, transparent and predictable** legal framework for internal and external flexicurity which allows companies to make the necessary manpower adjustments when new market opportunities arise, and thereby promotes employment growth;
 - ▶ an **effective and efficient labour market policy** which is geared to early and adequate activation of the unemployed and their rapid integration in the primary labour market;
 - ▶ **sustainable affordable social security systems** which offer individuals reliable basic protection as and when needed and prevent them from falling into the abyss;

- ▶ **modern and lifelong forms of training** which promote companies' innovation capacity and competitiveness, and workers' employability.
- Flexicurity **requires a holistic approach** in which these four elements are implemented in an overall strategy. Only then can their positive effects complement and reinforce each other.
- Modernisation of labour markets must form **part of a comprehensive reform strategy** for more growth and jobs, which goes beyond the labour market and also comprises measures in the areas of tax, education and innovation, industrial relations and competition policy, public finances and better regulation.

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I. Introduction

Europe faces major challenges in the area of growth and jobs: despite the growth in employment over the last year, the EU still cuts a poor figure in an international comparison of labour market developments. In 2006, the 7.9% unemployment rate posted by the EU was markedly higher than in other regions of the world such as the USA or Japan with corresponding rates of 4.1% and 4.6%. At 6%, the overall OECD average was also much better than that in the EU. A dramatic difference can be seen in the area of long-term unemployment, which in 2005 was seven times as high in EU-27 as in the USA (EU-27 = 4%, USA = 0.6%).

However, EU labour market figures are inadequate not only on an international comparison, but also measured against its own objectives. In 2000 European heads of state and government set themselves the goal of making the European Union “the most competitive and dynamic knowledge-based economic region in the world” by 2010. The EU is a long way from meeting that objective. The quantified employment objectives set as part of the Lisbon strategy also seem to be beyond reach: the overall target employment rate of 70% (EU: 63.8% in 2005) is proving just as hard to achieve as the target rate for female employment of 60% (EU: 56.3% in 2005) and for older workers of 50% (EU: 41% in 2005).

Given the varying situations in Member States and different problems, the need for action within the EU is sometimes very different. Whereas Denmark and Ireland, for instance, reported unemployment rates of 3.9% and 4.4% in 2006, the corresponding figure in Germany was 8.4% with Poland and Slovakia posting unemployment rates of 13.8% and 13.4% respectively. Employment rates in Europe are also highly divergent. Nevertheless, this spread should not be allowed to obscure the fact that the majority of EU Member States face major challenges. In fact, the European Commission also ascertained only limited progress in EU labour market reforms in its second annual progress report on implementation of the Lisbon strategy, issued in December 2006. The European Commission has therefore called on EU Member States to step up the reform tempo. In the words of Commission President José Manuel Barroso, speaking when the report was presented:

“The improved economic outlook is a unique window of opportunity to speed up, not an excuse to sit back and relax. There is no room for complacency”.

European business endorses this appeal without reservation. A survey by BUSINESSEUROPE (formerly UNICE) has found that most national business organisations are disappointed with the slow speed of reform steps in their home states.

The need for companies to adjust in the face of fiercer competition on global markets makes it essential to modernise labour markets. The favourable economic situation is a particularly good opportunity for pushing important reform projects forward with determination. This opportunity must be seized with both hands. Europe's Member States need modern labour markets which combine the necessary social protection with the requisite degree of mobility and flexibility on the labour market. In this regard, the concept of flexicurity has increasingly attracted attention and has been earmarked as a priority for the German, Portuguese and Slovenian EU Council Presidency. In addition, the European Commission plans to present a communication on flexicurity before the end of this year. Employers welcome this plan and set out below the principles which should be at the core of the flexicurity approach. In this regard they point out that the principle of subsidiarity has to be respected.

II. Flexicurity: greater security through better opportunities on the labour market

In the first instance, security based on extensive flexibility means more than just protecting existing jobs. Rather, flexicurity entails generating opportunities to substitute a disappearing job as seamlessly as possible with a new job (external flexibility). Surveys ("Employment in Europe 2006" report) show that countries with the most rigid provisions against dismissal have disproportionately high long-term unemployment, and workers therefore feel the greatest fear about unemployment. In countries with labour market rules which encourage employers to create employment relationships immediately when they are needed, because terminating those relationships poses no problems, workers feel much less fear about unemployment.

In this regard, flexicurity has particular relevance for the "problem groups" on the labour market. Attempts to protect jobs through extensive regulation mean that it is precisely the poorly qualified or otherwise disadvantaged groups which fare worst when seeking a job. According to the European Commission's report "Employment in Europe 2006", strict employment protection is particularly detrimental for integration of young people, women and long-term unemployed on the labour market. It is noticeable that it is Great Britain, Ireland and Denmark – countries with flexible labour law – which have the lowest long-term unemployment rates in the EU.

In addition to strengthening external flexibility, flexicurity also involves mobility within an existing work relationship in order to address the threat of job losses. The underlying idea here is that every business and every employee has an interest in a balanced work situation and versatile workers, and that no employer is happy to dismiss workers. To that end, it should be easier to conclude alliances for jobs at company level. If termination of a work contract is unavoidable, this should be possible rapidly and in a predictable manner, whenever possible hand in hand with new prospects for the worker.

The European debate on flexicurity must take account of the fact that labour market constellations within the European Union sometimes differ widely from each other and that the competences of the EU are limited. Over the last centuries different approaches in social policy in Europe have developed, with the consequence that individual Member States are approaching flexicurity from very different starting positions. Furthermore, there are also considerable socio-cultural differences between Member States. Hence, there can be no question of a "one-size-fits-all" approach to

shaping flexicurity. States must choose their own route which takes account of their own circumstances. The concept of flexicurity is associated with four fundamental elements:

- a simple, transparent and predictable legal framework for internal and external flexicurity which allows companies to make the necessary manpower adjustments when new market opportunities arise, and thereby promotes employment growth;
- an effective and efficient labour market policy which is geared to early and adequate activation of the unemployed and their rapid integration in the primary labour market;
- sustainable affordable social security systems which offer individuals reliable basic protection as and when needed and prevent them from falling into the abyss;
- modern and lifelong forms of training which promote companies' innovation capacity and competitiveness, and workers' employability.

Flexicurity requires a holistic approach in which these four elements are implemented in an overall strategy. Only then can their positive effects complement and reinforce each other.

III. Detailed discussion of flexicurity elements

► Labour legislation

Many layers of regulation, over-regulation and confusion in labour legislation create uncertainty for companies and prompt caution when it comes to new recruitments. The opportunities for additional employment are particularly marked in small and medium-sized enterprises (SMEs), which account for 99% of all businesses in the EU. And it is precisely SMEs that do not have a separate department to deal with labour legislation issues. Hence, what is needed is easy-to-understand, employmentfriendly labour law with provisions that give legal certainty and predictability for the establishment and termination of work contracts, based on business practice. It must not be complicated to arrange fixed-term work contracts. Furthermore, it is important to improve mobility within the framework of a work contract, for instance through working time corridors or working time accounts in order to allow flexible organisation of the volume of working time to reflect actual requirements within the business. The aim must be:

- to enhance the willingness of companies to create new jobs as early and as rapidly as possible, and thus to increase the opportunities for job-seekers on the labour market;
- to improve the possibility for companies to identify and take advantage of market opportunities. In this regard, the prime factor is speed. Flexibility is a sine qua non for seizing market opportunities to the benefit of the business and its employees.

According to a representative Eurobarometer study in 2006, seven out of ten EU citizens agree with the statement that "work contracts should become more flexible to encourage job creation". Policy-makers must not be afraid of making decisive changes of course, given that EU citizens have recognised that employment growth will only be possible if new recruitments are not an incalculable risk for the employer. In addition, a wide variety of different and differently shaped forms of employment have developed to become the engine of employment in Europe. It is important to support the diversity of new developments, which enable employers and employees to come to grips with a wide range of models for life and business and the requirements of growing competition against the background of globalisation.

► Labour market policy

Labour market policy must consciously create a bridge into employment. It will then help to prevent the development of long-term unemployment with all its negative consequences. Flexicurity means activating and mobilising job-seekers at an early stage, and using a “carrot and stick” approach to encourage individual initiative, but also providing sufficient support – not least through rapid and customised placement assistance. This needs an unbureaucratic and transparent legal framework as well as a concentration of labour market policy instruments on measures whose success has been proven. Measures taken in the framework of labour market policy must be geared to effect and cost-effectiveness. The aim must be:

- to provide the unemployed with rapid assistance and additional targeted encouragement to prevent or curb long-term unemployment;
- to put in place streamlined and effective instruments and use resources efficiently.

► Social protection

Unemployment must not become a threat to economic existence. Reliable and guaranteed basic protection against unemployment as an expression of social solidarity is a fixed component of European social systems. Moreover, various forms of unemployment insurance protect from dependence on assistance from the state during periods of temporary unemployment. In this regard, transfer payments must be structured overall in such a way that there are sufficient incentives for the unemployed to look for and, above all, accept new employment. The aim of systems is not to administer unemployment with benefit payments but to prevent or deal successfully and rapidly with unemployment. OECD’s employment strategy 2006 points to the negative consequences of high and long-term support payments on the labour market. The aim must be:

- to provide workers with the necessary social protection against and during unemployment in a flexible labour market;
- to structure unemployment insurance with sufficient incentives for rapid inclusion in the world of work in order to promote integration in the labour market and hence also to help place a ceiling on social contributions.

► Lifelong learning

In times of rapid technological progress, education and qualification becomes ever more important, with the emphasis on early, sustainable and lifelong provision. An individual’s skills and competence are determinant for his chances and upward mobility on the labour market. A thorough pre-school and school education must lay the foundations and provide the necessary tools for vocational training. Vocational training (at work, at school, in further/higher education) must be consistently aligned on labour market needs and practical requirements, ensuring that students are employable when they complete their courses. Bearing in mind the diminishing ‘half-life of knowledge’, lifelong learning has also assumed central importance. For companies, training means an increase in their innovation capacity and competitiveness; for workers, it means an increase in their employability. As long ago as 1999 European employers were spending 100 billion Euro on vocational training for their employees. In parallel, individual responsibility and the worker’s own commitment to training and qualification – reflecting the potential benefit to the individual – must also be boosted. In order to promote lifelong learning, training systems need to be structured to allow transferability. In particular, this means that the areas of vocational training and higher education should dovetail more closely, and design each qualification in such a way that it automatically leads to new employment. The aim must be:

- to make lifelong learning self-evident for an individual in order to enhance his employability and hence create opportunities on the labour market, as well as to enable companies constantly to improve their innovation capacity and competitiveness;
- to structure education and training systems so as to enhance transferability and hence open up new training and career pathways and exploit all available potential.

IV. What role can the EU play in relation to flexicurity?

Labour market policy lies within the responsibility of the Member States. The task of the European Union is to flank and support Member States in their efforts to modernise their labour markets. In this regard, it must strictly observe the principle of subsidiarity. Harmonisation of national labour law systems would run counter to the principle of subsidiarity and interfere with tried and tested traditions and structures. The main challenges for the EU are as follows:

- ▶ The EU promotes cooperation between Member States on national labour market policies via the European employment strategy which has been integrated in the steering mechanism for the renewed Lisbon strategy since 2005. In employment policy guideline 21, Member States agree to promote flexibility combined with employment security in a balanced relationship. The EU should work for full implementation of Member States' self-commitments, and at the same time promote the exchange of best practice within and beyond European employment policy.
- ▶ In addition, the EU must not thwart the objective of flexicurity with its own initiatives. Member States urgently need space to balance the necessary protection and the requisite labour market flexibility in line with national conditions. New European social policy rules with additional burdens for companies would move Europe even further from achieving this objective. In particular, the green paper on labour law comprises approaches which run counter to the goal of flexicurity at several points, and suggest yet more rules.
- ▶ The flexicurity approach is closely linked with the goal of better regulation, a comprehensive dismantling of bureaucracy and the right environment for more competitive jobs in Europe. Accordingly, the EU should push ahead with its better regulation initiatives, complete the internal market and improve the European framework conditions for application of the results of scientific research.

V. Flexicurity as an element of a comprehensive reform strategy for improving competitiveness

Modernisation of labour markets must form part of a comprehensive reform strategy for more growth and jobs, which goes beyond the labour market and also comprises measures in the areas of tax, education and innovation, industrial relations and competition policy, public finances and better regulation. The OECD employment strategy underlines the link between macro-economic policy and labour market development. Economic growth continues to be a central engine for more and better jobs. Despite the current favourable economic situation in Europe, Europe is still lagging behind important competitors. Over the last ten years average annual growth in the USA has been 1% ahead of growth in the EU and productivity in the USA has grown more quickly than in the EU, thus further widening the USA's lead. Companies' competitiveness must be strengthened through appropriate framework conditions. Only then will it be possible to achieve sustainable growth in employment.