



Brussels, 27.6.2007  
SEC(2007) 861

**COMMISSION STAFF WORKING DOCUMENT**

*Accompanying the*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Towards Common Principles of Flexicurity:**

**More and better jobs through flexibility and security**

**Impact Assessment**

{COM(2007) 359 final}  
{SEC(2007) 862}

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## ANNEX TO "TOWARDS COMMON PRINCIPLES OF FLEXICURITY"

### EXECUTIVE SUMMARY

This impact assessment will accompany the Communication on flexicurity, planned for adoption by the Commission on 27<sup>th</sup> June, 2007, in response to a request by the 2006 Spring European Council. To prepare the Communication, the Commission engaged in a broad consultation, including discussions at the Employment Committee, and a number of events involving Member States, Members of the European Parliament, Social Partners, Non Governmental Organisations and other partners.

The flexicurity approach is a broad concept, where different policies are integrated and made mutually consistent in a deliberate policy action. These policy interventions involve changes in the regulatory framework of contractual arrangements, in the functioning of lifelong learning and active labour market policies and social security systems (see box 5). Flexicurity belongs to the Lisbon Strategy for Growth and Jobs and the Integrated Guidelines, and contributes to fulfilling the objectives of the European Employment Strategy of more and better jobs, higher productivity and quality in work and greater social cohesion.

The rationale for a flexicurity approach is that in order to achieve the objectives of the Growth and Jobs Strategy, and at the same time to preserve and modernise the European Social Model and its values in times of globalisation and demographic ageing, it is essential to design policies that address simultaneously the flexibility of labour markets, work organisation and labour relations, employment security, and social security.

Three options are considered in this impact assessment. The first option analysed is "*no additional EU action*". The impact of such an option would be that many of the current problems of the EU labour markets, as identified in the Lisbon Strategy, would remain unaddressed, particularly as concerns segmented labour markets, long term unemployment and, more generally, adaptation to globalisation and change. In line with the views of all Member States and major stakeholders, the option of no additional EU action is therefore not chosen.

A second option is "*comprehensive legislation on flexicurity at EU level*". This is not a realistic option, both politically linked with subsidiarity and proportionality and because of the inherent complexity of a flexicurity approach. The impact has therefore not explicitly been analysed. The third option is the "*flexicurity approach through the open method of coordination*". In this option, an integrated approach covering contractual arrangements, credible lifelong learning systems, active labour market policies, and modern social security systems is promoted. Rather than proposing a one-size-for-all policy, common principles and different pathways would be adopted by Member States.

The Impact Assessment concludes by highlighting the third option as the best choice. This option would start *a policy process between the Commission, the Member States and the other stakeholders, fully within the framework of the Lisbon strategy and the Open Method of Coordination*. This approach would contribute to reducing segmentation, long term unemployment and more generally increase adaptability to globalisation. It would contribute to achieving the targets in the Lisbon Strategy of more and better jobs, higher productivity and quality in work and increased social cohesion. The precise impact of flexicurity will

depend on how Member States will define their own pathways, and on how policies are implemented. Since flexicurity falls into the broader scope of the Lisbon Strategy, it will be monitored, assessed and evaluated in that framework.

## **MODIFICATIONS FOLLOWING THE OPINION OF THE IMPACT ASSESSMENT BOARD**

In response to the suggestions of the Impact Assessment Board (opinion dated 23<sup>rd</sup> May, 2007), the following changes have been introduced in the text of the draft Impact Assessment (IA).

The origin, substance and the content of typical pathways have been described in more detail, with a clearer reference to the fact that labour market performances have been analysed separately. Moreover, in addition to the four policy components specified for the pathways, the IA identifies the following policy challenges to be addressed through each pathway: tackling contractual segmentation, need for enterprises for more flexibility, developing flexicurity within the enterprise and offering transition security, tackling skills and opportunity gaps among the workforce, improving opportunities for benefit recipients and informally employed workers.

A new chapter on the specific added value of EU action has been introduced. It underlines that the flexicurity policy proposes for the first time an integrated approach to the challenges confronting labour markets in the EU. The Communication will thus identify the basis for a series of common principles of flexicurity at EU level, that would constitute a common framework for the different typical "flexicurity pathways". The typical pathways should also allow a strengthening of mutual learning and the exchange of best practices. The flexicurity approach does not require any new method or instrument of coordination: It uses the existing Open Method of Coordination within the revised Lisbon Process.

The different views of consulted stakeholders have been described more in detail, as well as the explanation how these views have been taken into account in preparation of the Communication. Budgetary constraints are also more explicitly addressed, with special emphasis on the long term financial benefits of flexicurity policy.

The role of the principles of subsidiarity and proportionality in the formulation of flexicurity policy has been better explained in chapter 4.3 (Option 2, comprehensive legislation on flexicurity at EU level): Flexicurity falls essentially within the framework of the European Employment Strategy (EES), which initiated the 'open method of co-ordination' (OMC) with subsidiarity as one of its key principles. The flexicurity approach is thus fully in line with the OMC and its emphasis on subsidiarity.

Concerning the implementation and monitoring of flexicurity, it has been further highlighted in the IA that the on-going work with the Member States on indicators and monitoring should help ensure the proper implementation of flexicurity policies.

## 1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

### 1.1. Organisation and timing

This impact assessment will accompany the **Commission Communication** on flexicurity that is planned for adoption in June 27th 2007. The Communication explores - following the request made by the 2006 Spring European Council - a set of "common principles of flexicurity". The concept of flexicurity<sup>1</sup> relates simultaneously to the flexibility of labour markets, of work organisation and labour relations, and to employment security, social protection and social security. The "common principles" and the "pathways" described in this Communication are meant to facilitate a debate at national and EU level – notably between public authorities and social partners – on the best balance between the different components of flexicurity at Member States level.

The key principle behind flexicurity, i.e. the need to simultaneously enhance flexibility and security, has been on the policy agenda for over a decade. Adaptability, which covers aspects of flexicurity, has been an important part of the Employment Guidelines since the beginning of the **European Employment Strategy**<sup>2</sup>.

The Communication will set out strategic orientations to be further discussed with Member States and developed in the context of the implementation of the revised **Lisbon Strategy**, notably through the **Open Method of Coordination**<sup>3</sup>. The Open Method of Coordination is used on the EU level in the field of employment, social protection and social inclusion and in the Lisbon Strategy for growth and jobs. It can provide value added in the field of flexicurity, by offering a framework for the exchange of best practices and mutual learning between Member States. The Communication does not address concrete policy proposals to individual Member States, and the assessment of the likely impact of the Communication is essentially qualitative.

As regards the EU's "**right to act**", it should be stressed that the different components of flexicurity are already included in the Employment Guidelines and the Lisbon Strategy. At the same time, the Joint Employment Report<sup>4</sup> has shown that these components are often treated separately, and that the problems described in section 2, such as the need for more adaptable labour markets, are not treated in a comprehensive and integrated way.

In this context, flexicurity represents a clear **value added** for European labour markets. Whereas flexibility focuses on contractual arrangements and easing employment protection, and security focuses only on workers' protection, *flexicurity* takes into account the importance of a combination of policies that promote investment in people and facilitates their upward

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<sup>1</sup> On the interpretation of the meaning of the word flexicurity there is broad understanding internationally. The same holds true for the interpretation of the underlying components. In the March 8th and 9th 2007 preparatory meeting for the G8 meeting in May between G8 countries, OECD, the ILO and the Commission the following wording was agreed: "every successful package requires well-designed employment regulations and contractual arrangements, adequate employment-oriented social protection, as well as effective active labour market and lifelong learning policies".

<sup>2</sup> For more information on the European Employment Strategy, EES, see:  
[http://ec.europa.eu/employment\\_social/employment\\_strategy/index\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/index_en.htm)

<sup>3</sup> For more information on the Lisbon Agenda/Strategy, see:  
[http://ec.europa.eu/growthandjobs/index\\_en.htm](http://ec.europa.eu/growthandjobs/index_en.htm)

<sup>4</sup> Joint employment report 2006/2007, adopted on 23rd of February 2007, doc number 6706/07

mobility in the labour markets and transitions from one job to another. The flexicurity approach is therefore a broad concept, where different policies are integrated and made mutually consistent in a single deliberate policy action. These policy interventions involve contractual arrangements, the functioning of lifelong learning, active labour market policies, and social security systems, and take place essentially at Member State level.

The general rule is that Commission impact assessments should be **proportionate**. In the case of a proposal for legislation, the Commission should demonstrate, as far as possible, that the benefits with legislation will outweigh the costs. In a case when *no legislation is proposed*, as in this Communication, there is not the same obligation.

### **Box 1: Collection and use of expertise**

A first **flexicurity seminar** was organised with DG EMPL in May 2006, chaired by Commissioner Špidla. Three labour market experts - Professors Maria João Rodrigues, Bernard Gazier and Per Kongshøj Madsen, were invited to give their views about the issues at stake. Representatives from SEC GEN, DG ECFIN and DG ENTR also participated.

Both an internal DG EMPL working group and an **Inter-service Steering Group** on flexicurity were established (respectively on 31 May 2006 and 21 December 2006) to consult on the process and content of the flexicurity concept. The internal group met six times bringing together the policy and geographic directorates. The Inter-service Steering Group on Flexicurity was led by DG EMPL and met three times. It consisted of representatives from SEC GEN, DG ECFIN, DG ENTR, DG EAC, DG MARKT, and BEPA.

To support the Commission in preparing the analytical elements of the Communication, a **high-level External Experts Group** was created in September 2006. This Group advised the Commission on the socio-economic factors of flexicurity, on identifying adequate indicators, on the Member States' starting positions and pathways to flexicurity, and produced its final report in May 2007. The rapporteur of the Group was Dr. Ton WILTHAGEN, Professor of Institutional and Legal Aspects of the Labour Market at Tilburg University, the Netherlands. The other members of the group, participating in a personal capacity, were: Professor Tito BOERI, Bocconi University and Fondazione Rodolfo De Benedetti, Italy; Professor Pierre CAHUC, University of Paris-I, France; Mrs Sanja CRNKOVIC, CEPOR-SMEs and Entrepreneurship Policy Centre, Croatia; Mrs Renate HORNUNG-DRAUS, Managing Director, European and International Affairs, Confederation of German Employers, Berlin, Germany; Mrs Catelene PASSCHIER, Confederal Secretary, ETUC, Brussels; Professor Csilla KOLLONAY-LEHOCZKY, Central European University and Head of the Labour and Social Law Department, Faculty of Law, Eotvos Lorand University, Hungary. DG EMPL chaired the expert group; some of the members of the internal and Inter-service Steering groups also took part in the meetings with the experts.

## **1.2. Consultation**

Given the nature of flexicurity and its different components, the involvement of social partners and other stakeholders, together with national and sub-national public authorities, is essential for the success for the development of a flexicurity approach and the implementation of flexicurity policies.

Therefore, the Commission considered that the preparation of the Impact Assessment, and of the Communication itself, should involve a broad consultation process. For this reason, the

Commission organised a **number of events** involving Member States, Members of the European Parliament, trade unions, businesses, Non Governmental Organisations and other partners. Key events have been the informal EPSCO council in January 2006, the Spring Council 2006, the joint EMCO-SPC contribution in May 2006, the Extraordinary Social Summit in Lathi in October 2006, and a hearing in the European parliament in March 2007. The key elements of the forthcoming Communication were also discussed in the Stakeholder Conference on 20<sup>th</sup> April 2007, on the basis of a background document to facilitate these discussions<sup>5</sup>. The Commission also launched a number of studies, and dedicated a full chapter of the Employment in Europe 2006 Report to flexicurity. Member States views have been discussed intensively in the Employment Committee and at the Council.

The Commission's assessment and proposed ways forward on flexicurity, as well as the elements relating to implementation of an integrated policy approach, has taken into account these consultations and contributions.

#### 1.2.1. Council and Member States

In January 2006, the informal **EPSCO Council** discussed flexicurity in detail. The **Employment Committee**<sup>6</sup>, EMCO, has before and after this meeting explored the subject on several occasions. Following the informal council meeting, a **working group** on flexicurity was created. The group consisted of Denmark, Belgium, Czech Republic, Germany, Spain, Italy, Austria, Sweden, the Slovak Republic, Slovenia; and the Commission. They produced a report in May 2006<sup>7</sup>.

The conclusions of the **Spring European Council in 2006** contained a separate paragraph on the role of flexicurity<sup>8</sup>. The European Council "*stresses the need to develop more systematically in the National Reform Programmes (NRPs) comprehensive policy strategies to improve the adaptability of workers and enterprises. In this context, the European Council asks Member States to direct special attention to the key challenge of "flexicurity" (balancing flexibility and security): Europe has to exploit the positive interdependencies between competitiveness, employment and social security. Therefore Member States are invited to pursue, in accordance with their individual labour market situations, reforms in labour market and social policies under an integrated flexicurity approach, adequately adapted to specific institutional environments and taking into account labour-market segmentation. In this context, the Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity. These principles could be a useful reference in achieving more open and responsive labour markets and more productive workplaces.*"

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<sup>5</sup> The conference web site, including the background document, can be found at:

[http://ec.europa.eu/employment\\_social/employment\\_strategy/flex\\_stakeholderconference\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/flex_stakeholderconference_en.htm)

<sup>6</sup> The Employment Committee is a Treaty-based Committee which was formally created by a Council Decision in January 2000. The main obligations of the Committee, as defined in the EC Treaty and in the founding decision, relate to the preparation of the Council proceedings with regard to the European Employment Strategy and its instruments - the Employment Guidelines, the Joint Employment Report and the recommendations on the implementation of national employment policies.

<sup>7</sup> The report can be found at:

[http://ec.europa.eu/employment\\_social/employment\\_strategy/pdf/emco\\_workgroupflexicurity06\\_en.pdf](http://ec.europa.eu/employment_social/employment_strategy/pdf/emco_workgroupflexicurity06_en.pdf)

<sup>8</sup> The conclusions can be found at:

[http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/89013.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/89013.pdf)



Based on the EMCO working group report and the Spring Council, a **Joint Contribution of the Employment Committee and the Social Protection Committee** on flexicurity was finalised in May 2006<sup>9</sup>. This joint contribution, with the attached working group report, was adopted by the EPSCO Council in June 2006.

In March 2006, the **ECOFIN Council** discussed the issue of flexicurity (Ministerial dinner). The discussion, led by the Danish Finance Minister, was based also on an issues paper prepared by DG ECFIN. Ministers discussed the concept of flexicurity, and the extent to which lessons can be learned and applied in other countries with very different labour market institutions and social security systems. The subgroup of the **Economic Policy Committee**, the Labour Market Working Group, has also discussed and exchanged views on flexicurity.

In the autumn 2006 **country examination** of Member States' implementation of the employment part of their Lisbon National Reform Programmes (the "Cambridge Review"), discussions focused on three themes, including flexicurity. In November, EMCO produced a background document<sup>10</sup> and sent a contribution<sup>11</sup> to the EPSCO Council as a result of the examination. A range of flexicurity indicators already exist, and EMCO's **indicator group** is discussing specifically how best to use current indicators and - if necessary how to develop new ones fitting into the concept of flexicurity. The on-going work with the Member States on indicators and monitoring should help ensure the proper implementation of flexicurity policies (see also section 7)

Throughout 2007, the EMCO's **Ad Hoc group** will devote four meetings to discuss and exchange views and good examples of flexicurity. This will form an input for further discussions in the Employment Committee.

On the basis of discussions in the Employment Committee, the **EPSCO Council** adopted the **Joint Employment Report in 2007** including a key message, stating that "*Flexicurity should ease the transitions between different stages of working life. The internal and external components of flexicurity should mutually reinforce one another, so that at the same time the modernisation of labour law, investment in training and active labour markets, and the provision of adequate social protection and income security can take place in a context of modern work organisation. Flexicurity should also be conducive to addressing precariousness, reducing segmentation on the labour market, and combating undeclared work. The social partners have an important role to play here. The Commission Communication on flexicurity should be instrumental in preparing a range of flexicurity pathways to find the right mix of policies tailored to labour market needs.*"<sup>12</sup>

The conclusions of the **Spring European Council in 2007** also referred to flexicurity saying that "*it looks forward to the discussion on the Commission Communication on flexicurity, which should be instrumental in preparing a range of flexicurity pathways to find the right mix of policies as well as set priorities tailored to labour market needs including increased labour-market participation.*"

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<sup>9</sup> The joint contribution can be found at:

[http://ec.europa.eu/employment\\_social/employment\\_strategy/pdf/emco\\_spc\\_en.pdf](http://ec.europa.eu/employment_social/employment_strategy/pdf/emco_spc_en.pdf)

<sup>10</sup> The background document can be found at:

[http://ec.europa.eu/employment\\_social/employment\\_strategy/pdf/emco\\_cambridgeadhoc\\_en.pdf](http://ec.europa.eu/employment_social/employment_strategy/pdf/emco_cambridgeadhoc_en.pdf)

<sup>11</sup> The contribution can be found at:

[http://ec.europa.eu/employment\\_social/employment\\_strategy/pdf/emco\\_cambridgereview06\\_en.pdf](http://ec.europa.eu/employment_social/employment_strategy/pdf/emco_cambridgereview06_en.pdf)

<sup>12</sup> Joint employment report 2006/2007, adopted on 23rd of February 2007, doc number 6706/07.

### 1.2.2. *Other EU institutions*

The **European Parliament** held a hearing on flexicurity as part of a broader discussion on the Green Paper on labour law, in the Employment and Social Committee on the 21st March 2007. Commissioner Špidla and the rapporteur of the expert group on flexicurity, Professor Ton Wilthagen, were key-note speakers. The Swedish Minister of Labour presented his views on flexicurity at the Committee on 11<sup>th</sup> April, 2007. There was also an informal meeting at technical level with representatives from national parliaments in March 2007.

The **European Economic and Social Committee** adopted an opinion on "Flexicurity: the case of Denmark" in May 2006. On the 23<sup>rd</sup> April 2007 the Study Group on Flexicurity, Section for Employment, Social Affairs and Citizenship of the European Economic and Social Committee, discussed a Preliminary Draft Opinion on Flexicurity: "internal flexibility dimension – collective bargaining and the role of the social dialogue as instruments for regulating and reforming labour markets"<sup>13</sup>. A plenary session of Economic and Social Committee will discuss this opinion on 18<sup>th</sup> June .

### 1.2.3. *Social partners and other stakeholders*

In the work programme of the **European social dialogue for 2006-2008**, the social partners undertook to make a joint analysis of the key challenges facing Europe's labour market. One of the issues mentioned as key areas is the balance between flexibility and security<sup>14</sup>.

The European Commission has invited the **European Social Partners** to contribute to the debate on flexicurity. The Commission met with the Social Dialogue Committee to give information and to discuss flexicurity in June 2006 and February 2007. The concept of flexicurity and the role of social partners were discussed at the Extraordinary Social Summit devoted to flexicurity in Lahti in October 2006. Their joint contribution is expected in the near future.

The Commission has also invited **sectoral social dialogue committees** to contribute to the debate on flexicurity. The Commission presented flexicurity in a number of sectoral social dialogue meetings. Several social partner groupings have made joint written contributions on flexicurity, notably the social partners in the temporary agency work and industrial cleaning sectors.

**Written contributions** have been submitted to the Commission by the Social Platform, EAPN, AGE, ETUC, CESI trade union, EUROCADRES (organisation for professional and managerial staff) and social partners in the temporary agency sector (Eurociett and UNI Europa). It should be noted that the Commission has also received a number of written contributions in the framework of the consultation on the Green Paper on labour law, which include some aspects of flexicurity, (see box 3). However, the full outcome of this consultation will not be available in time for the flexicurity Communication (the European Parliament's opinion in particular will probably be available only in July 2007).

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<sup>13</sup> The discussion of the Group highlighted among other things the importance of the social dialogue and collective bargaining in determination and implementation of the flexicurity policy, as well as the strong need to include the dimension of internal flexibility and gender equality in the debate on flexicurity.

<sup>14</sup> The work programme can be found at:  
[http://ec.europa.eu/employment\\_social/news/2006/mar/work\\_programme\\_2006\\_2008\\_en.pdf](http://ec.europa.eu/employment_social/news/2006/mar/work_programme_2006_2008_en.pdf)

The consultation process was complemented by a **Stakeholder Conference on Flexicurity**, held in Brussels on April 20th, 2007, with around 450 participants. Key note speakers in the conference were Commissioner Spidla, the Employment Ministers from the present and upcoming Presidencies of the Council, the Danish Employment Minister, the Chairman of the Employment and Social Committee of the European Parliament, the General Secretary of ETUC and BUSINESS EUROPE, and the rapporteur of the Flexicurity Expert Group. Representatives from Member States, Social Partners, Non Governmental Organisations, EU institutions and the general public participated. Two panels were held in the afternoon; the first one focused on addressing labour market segmentation, and the second on promoting transitions between jobs. (see box 2)

A questionnaire on flexicurity was sent out through the **European Business Test Panel**, EBTP. The EBTP is composed of around 3200 companies of all sizes and sectors located in all EU Member States. EBTP members reply to online questionnaires sent to them by the European Commission on a regular basis. The questionnaire on flexicurity was sent out in April 2007 and the first results were made available in May<sup>15</sup>. These results show that - in-line with the flexicurity approach - over half of the respondents believe that flexibility and security can be improved at the same time. Equally half of the employers consider that existing labour law and collective agreements need to be adapted to allow more flexibility while still one out of four employers mention the need for changes to provide more security for workers. Importantly, half of the respondents note that they would hire more staff on permanent contracts if the regulatory framework made it easier to terminate employment contracts. As regards transitions from fixed-term contracts to permanent contracts over half of the respondents state that workers are offered a permanent contract after the original (fixed-term) contract has expired. Concerning the promotion of training and perhaps not surprisingly, about 70% of the respondents claim that they would increase investments in training of their staff if a larger share of the training costs were born by external funds. However, the survey also demonstrated that the decision to increase investment in training is not strictly depending on the type of contract of the worker concerned.

Regarding the way to achieve flexicurity, Trade Unions tend to advocate legislative instruments to ensure minimum rights, although they are also eager to defend the autonomy of national social systems and collective agreements. Employers on the whole strongly oppose legislative initiatives in the social field.

Flexicurity was designed in large part to help alleviate the fears associated with the modernisation of labour markets. Its balance across the four components aims to implement a broad and credible kind of security which goes beyond security of one's actual job. During the consultations, the concerns expressed by the different stakeholders have been taken into account, e.g. by stressing the importance of internal flexicurity (meaning flexicurity at enterprise level) and by underlining that the so-called Danish model (characterised by moderate EPL) is not the only option.

#### **Box 2: The Stakeholder Conference on flexicurity on the 20<sup>th</sup> April 2007**

A Stakeholder Conference on flexicurity of the 20<sup>th</sup> April 2007, organised by the Commission, gathered approximately 450 participants, including: Commissioner Spidla, the

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<sup>15</sup> A full report on the results of the EBTP questionnaire will be made available on the Commission's flexicurity website: [http://ec.europa.eu/employment\\_social/employment\\_strategy/flex\\_meaning\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/flex_meaning_en.htm)

Ministers for Employment of the current and forthcoming Council Presidencies, the Chairman of the European Parliament's Employment and Social Affairs Committee, the Employment Minister of Denmark, the Secretary Generals of ETUC and Business Europe and the rapporteur of the Flexicurity Expert Group. The overall view expressed by the keynote speakers and participants at the Conference was that **the status quo is not an option**, i.e. that the flexicurity issue must be addressed, notably by Member States and social partners at national level, but also at EU level through the Lisbon Strategy and the Open Method of Coordination.

The integrated approach and the components of flexicurity agreed in the Council (see box 5) were acknowledged by the stakeholders. In this respect, Mr de Buck, Secretary General of Business Europe, underlined that employers do not want to limit the discussion to "hiring and firing": the other components are also important for increased productivity and jobs in the labour market. He stressed that the fear that increased flexibility would lead to increased precariousness (see glossary for explanation) and undeclared work is unjustified. Mr Monks, Secretary General of ETUC, stressed that ETUC was not negative about flexicurity, but wanted to broaden the debate beyond concentrating on reducing employment protection and unemployment benefit entitlements, and giving the impression that the way to tackle the issue of precarious work is to make regular work more precarious.

The stakeholders, including Ministers, Social Partners, Non Governmental Organisations and the European Parliament, also stressed that **one size does not fit all, and expressed their interest in common principles and different pathways**. Many stakeholders stressed that strong social partners and social dialogue are key for effective implementation and success.

Participants also **stressed the role of the Open Method of Coordination** and the European Employment Strategy. Mr Andersson, chairman of the Economic and Social Committee in the European Parliament (EP), highlighted that the EP considers flexicurity a priority. He also said that coordination and mutual learning are key in this respect on the EU level, and that given the scope of existing Community legislation, new (comprehensive) legislation at EU level is not necessary to pursue flexicurity.

#### *1.2.4. Studies and research carried out*

A specific key chapter in the Commission's **Employment in Europe 2006** Report was devoted to flexibility and security in the EU labour markets<sup>16</sup>. The main aim of the chapter was to present a preliminary characterisation of the balance between flexibility and security across Member States – to reflect their current institutional setting – and, on that basis, to propose a taxonomy that would analyse the situation of Member States in accordance with a reduced number of “flexicurity” systems. This should be seen as preliminary work leading to the Commission’s Communication. The analysis of the chapter builds on a long tradition of work carried out within past editions of *Employment in Europe* (see EiE 2001, 2002, 2003 and 2004). This work focused on issues such as job quality, labour market flexibility, employment security and labour market transitions and advancement. In this context extensive empirical evidence as well as a number of indicators have been provided.

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<sup>16</sup> The second chapter is about flexibility and security. The full report can be found at: [http://ec.europa.eu/employment\\_social/employment\\_analysis/employ\\_2006\\_en.htm](http://ec.europa.eu/employment_social/employment_analysis/employ_2006_en.htm)

Moreover, under the Socio-Economic theme of the Commission's Research Framework Programmes substantial research has been carried out dealing with Work, Flexibility and Quality of Work<sup>17</sup>.

The **European Employment Observatory Review** published in the autumn 2006 a series of national articles provided by the **network of national experts, covering 30 countries** (EU 27, candidate countries Croatia and Turkey, and EEA country Norway)<sup>18</sup>. Experts analyse of the key challenges and debates in each country, national strengths and weaknesses including governance, and national priorities and strategies that would have the best chance of achieving a better flexicurity balance. These national articles contain rich evidence and argument about flexicurity and the balance between flexibility and security in national labour markets.

The Commission devoted a **Eurobarometer survey** (number 261) on social reality, including some issues linked to the role of flexicurity. This Special Eurobarometer survey was conducted through face to face interviews by TNS Opinion & Social. A total of 26755 people were interviewed between the 17th of November and the 19th of December 2006. This barometer showed a **positive attitude of citizens** to the concept of flexicurity: European citizens recognise the values of flexicurity measures. To illustrate this about 90% of the respondents believe that education and training will improve their labour market perspectives while over 70% consider that contractual arrangements need to become more flexible in order to create more jobs. Finally, over 50% trust that in the case they would be fired that they will quickly find another job (note: this percentage is the highest in DK).

The **European Foundation for the Improvement of Living and Working Conditions** in its Fourth European Working Conditions Survey (2005) covering 31 European countries and 30000 workers provided an interesting analysis of some of the key flexicurity issues like career development, functional flexibility, work life balance and development in the job<sup>19</sup>.

The **Joint Research Centre** of the Commission and DG EMPL plan to build a number of synthetic/composite indicators on flexicurity. The methodology used in the construction of these indicators will be similar to that used to calculate an Active Citizenship Composite Indicator using the European Social Survey of 2002<sup>20</sup>.

**OECD** in its recent assessment of the Job Strategy characterise certain countries as having flexicurity type policies. These appeared to work in the particular circumstances of the countries concerned<sup>21</sup>. The **ILO** has also done work looking at aspects of flexicurity. In 2005, a paper looked at labour market security in a globalised world<sup>22</sup>. Flexibility and security was one of the main topics on the agenda of the institutional ILO European and Central Asia ILO meeting in Budapest in 2005, where also Commissioner Špidla attended. Flexicurity was also

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<sup>17</sup> A summary of the main research findings and policy recommendations will be made available via the Flexicurity website of DG EMPL:

[http://ec.europa.eu/employment\\_social/employment\\_strategy/flex\\_meaning\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/flex_meaning_en.htm)

<sup>18</sup> The national articles are available on the EEO website: [www.eu-employment-observatory.net/](http://www.eu-employment-observatory.net/)

<sup>19</sup> The report can be consulted on: <http://www.eurofound.europa.eu/ewco/surveys/EWCS2005/index.htm>

<sup>20</sup> Hoskins et al. (2006), "Measuring Active Citizenship in Europe", CRELL Research Paper n°4

<sup>21</sup> OECD (2006), OECD Employment Outlook, Boosting Jobs and Income

<sup>22</sup> Protected mobility for employment and decent work: labour market security in a globalised world: Peter Auer, ILO, Employment Strategy papers, 2005/01

developed as a theme by the ILO Office in the ILO Office book on flexicurity in Central and Eastern Europe published in March 2007.

### **Box 3 The on-going consultation of the Green Paper on Labour Law**

In parallel with the flexicurity process, a **Green Paper 'Modernising labour law to meet the challenges of the 21st century'** was adopted by the European Commission on 22nd November 2006, launching a consultation process which is still underway. Over 400 submissions were made in the course of the subsequent public consultation exercise conducted by the Commission. All of these submissions - from Member State parliaments and governments, EU social partner organisation, trade unions, employers' organisations, non governmental organisations, companies, and individuals – are currently being analysed by the Commission services. They will be considered in the context of the preparation of a **follow-up Communication**, which will address the main policy issues and options identified in the responses to the Green Paper. The presentation of the Commission's follow up Communication is scheduled for October 2007 having regard to the need to undertake a qualitative analysis of the large volume of submissions received and to accommodate the anticipated adoption of the opinion of the European Economic and Social Committee in May and of the opinion of the European Parliament in July 2007.

The Green Paper considered the role labour law might play in advancing a “flexicurity” agenda in support of a labour market which is fairer, more responsive and more inclusive, and which contributes to making Europe more competitive. To this end it addressed aspects of flexicurity in a number of questions<sup>23</sup>. In the light of the large volume of responses to the Green Paper from a wide range of interests, it has not been possible to complete a general assessment as an input to the preparation of this Impact Assessment. While it is impossible to draw conclusions on the consultation at this early stage - especially without the contribution from the Parliament, and the basis of a preliminary assessment of the very comprehensive submissions received from the EU social partners, - a short **summary of key issues raised** could be:

#### 1. Flexicurity - the need for an integrated approach

The social partners put strong emphasis on the need to address the modernisation of labour law as part of a broader flexicurity agenda, acknowledging that labour law is only one component of a flexicurity approach. For the trade unions, modernising labour law at national

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In specific the questions 2-6: Question 2: Can the adaptation of labour law and collective agreements contribute to improved flexibility and employment security and a reduction in labour market segmentation? If yes, then how? Question 3: Do existing regulations, whether in the form of law and/or collective agreements, hinder or stimulate enterprises and employees seeking to avail of opportunities to increase productivity and adjust to the introduction of new technologies and changes linked to international competition? How can improvements be made in the quality of regulations affecting SMEs, while preserving their objectives? Question 4: How might recruitment under permanent and temporary contracts be facilitated, whether by law or collective agreement, so as to allow for more flexibility within the framework of these contracts while ensuring adequate standards of employment security and social protection at the same time? Question 5: Would it be useful to consider a combination of more flexible employment protection legislation and well-designed assistance to the unemployed, both in the form of income compensation (i.e. passive labour market policies) and active labour market policies? Question 6: What role might law and/or collective agreements negotiated between the social partners play in promoting access to training and transitions between different contractual forms for upward mobility over the course of a fully active working life?

level can only be satisfactorily addressed in the context of the overall regulatory framework at national level and by recognising the significance of collective bargaining as an important source of law. In the view of employers, a flexicurity approach should not seek to organise tradeoffs between flexibility and security. Rather flexibility should be seen as a way to improve employment security.

## 2. Tackling segmented labour markets – flexible contractual arrangements and precarious employment and working conditions

Responses revealed a common concern to reduce the segmentation of labour markets and to harness education and training measures to assist individuals in their career development.

Employer interests maintain that the scope for flexibility in traditional standard contracts must be improved and that the availability of a variety of contractual arrangements is essential. As regards the depiction in the Green Paper of the situation of "insiders" and "outsiders" within a segmented labour market, employers maintain that, in reality, the "outsiders" are the unemployed and the "insiders" are all those legally employed. Trade unions consider that the gap between "insiders" and "outsiders" can only be eliminated by improving the protection of vulnerable workers, tackling their exclusion from proper labour law coverage and their precarious employment and working conditions.

## 3. Security of Employment

There is a shared interest in developing arrangements to strengthen the position of workers in the context of job-to-job transitions through effective active labour market policies combined with employment friendly social protection systems. For employers, flexicurity approaches can help to improve employment security so that workers would become less dependent on labour law instruments and be able to rely more on education and training measures. For the trade unions, active labour market policies combined with adequate unemployment benefit systems, social security and pension systems adapted to labour market transitions are crucial to boosting workers' capacity to face change and to provide them with security throughout their working lives.

## 4. Subsidiarity – social policy competences

The social partners placed strong emphasis on the need to avoid any uniform top-down EU approach to promoting flexicurity policies including labour law reform and flexible contractual arrangements. They share the view that no single model of flexicurity policies can be generalised across Europe since each country has to decide on its own on the sequence of reforms and on the different components of the policy mix to be put in place. While employers consider that competence to modernise labour law lies primarily at national level, the development of an EU-wide supportive legal framework is favoured by the trade unions.

## 5. Follow up

The social partners emphasise their shared commitment to joint initiatives such as an analysis of key labour market challenges as foreseen in the EU social dialogue work programme 2006-2008. For employers, the role of the EU should be to organise exchanges of experience between Member States and to monitor national reforms using the instruments of the Growth and Jobs strategy. In the view of trade unions, social policy should be reinforced in the Lisbon strategy with due regard to the autonomy of the national social partners. They also point out

that genuine and balanced flexicurity models wherever they exist in Europe reflect the outcome of negotiations between the social partners at all levels.

## 2. PROBLEM DEFINITION

In order to achieve the objectives of the Growth and Jobs Strategy, and at the same time to preserve and modernise the European Social Model and its values in times of globalisation, rapid technological change and demographic ageing, it is essential to design policies that address simultaneously the flexibility of labour markets, work organisation and labour relations, employment security, and social security.

An **integrated approach is needed** to be able to cope with the problems facing the European labour markets, combining measures to improve both flexibility and security. The focus should be on exploiting the synergies between policies that improve both the flexibility and the security and between policies that enhance workers' security in the market. This integrated approach calls for a deliberate and synchronic design of different contractual arrangements, credible lifelong learning systems, active labour market policies, and modern social security systems. Such synergies have the potential to create more and better jobs, strengthen social cohesion and fight poverty and exclusion by pursuing the active inclusion of all and spreading the benefits of more open and flexible labour markets to all citizens, including disadvantaged groups. Equal opportunities and gender equality are an integral part of flexicurity policies. This approach will help Europe strengthen its social values and its Social Model.

The **Joint Employment Report** adopted by the Council and the European Commission in March 2006 stated that, despite recent progress in employment outcomes for all Member States, **policy implementation in the employment field is still particularly weak as concerns adaptability of workers and enterprises**<sup>24</sup> (see box 4 hereafter):

### **Box 4: The analysis of adaptability policies in the Joint Employment Report**<sup>25</sup>

In line with the conclusions of the Annual Progress Report 2006, which clearly illustrated a lack of policy emphasis in the adaptability priority, implementation under this priority has been slow. At the 2006 Spring Council, Member States committed themselves to a more comprehensive strategy to improve the adaptability of workers and enterprises, directing special attention to the challenge of flexicurity. Although not every country explicitly cites flexicurity, it is clear that the attention given to this concept has had a positive effect on the policy debate. Most countries are testing its value for national policy making. As yet, few go beyond clustering separate measures under this new heading. Member States have not yet integrated the concept to focus on the interaction of measures rather than on measures individually. Nonetheless, a small number of them have already taken serious steps towards such an approach within their national context. In Ireland a new 10-year social partnership agreement was signed in 2006, covering many items related to flexicurity.

Labour code reviews are by far the most widespread type of measure. Member States are increasing contractual diversity but generally do not focus on transitions between types of contracts. There are few examples of measures aimed at redesigning Employment Protection

<sup>24</sup> Joint employment report 2006/2007, adopted on 23rd of February 2007, doc number 6706/07

<sup>25</sup> Joint employment report 2006/2007, adopted on 23rd of February 2007, doc number 6706/07



Legislation for regular contracts to promote more flexibility and transitions (including LV, PT). Some countries, such as EE and SI, announce new reviews of their labour codes with a view to making them more flexible. In other cases political sensitivity causes delays in policy making (CZ, PL) or abandonment of previous plans, such as the announcement by DE to extend probation periods in exchange for the abolition of fixed term contracts. Policies to introduce flexibility 'on the margins' are still pursued (FR, PL). Countries having operated such policies for some time increasingly realise these encourage labour market segmentation which needs to be addressed. In IT temporary workers will benefit from increasingly harmonised social rights and improved pension rights via higher social security contributions. In ES, a package of measures was agreed with the social partners.

A majority of countries pay attention to tackling undeclared work, often through strengthening the labour inspectorate or other control or surveillance measures (AT, EE, DE, DK, EL, HU, LV, LT, MT, SI). A few countries have designed measures to improve their capacity to anticipate and manage economic restructuring and to forecast future labour market needs. LU is introducing transition plans for those who lose their jobs due to restructuring. IE is announcing a review of future challenges facing the manufacturing sector. MT has set up a one-stop shop for collective redundancies. The introduction of innovative and adaptable forms of work organisation has been promoted in several countries by initiatives at national level (DE, LV, SI, SK, UK) and by the social partners (DE, LU).

Some countries are implementing new forms of support for transitions in occupational status (transition security) allowing workers to be better prepared for transitions between jobs. FI is implementing 'change security', providing dismissed workers with greater financial security during the stage of transition between jobs and fostering more efficient cooperation between employers, employees and labour authorities. Other initiatives focus on incentives for unemployed people to start businesses (BE, DE, LT). Policies presently implemented or designed will not suffice to meet the flexicurity challenge. Effective combinations of flexibility and security result from comprehensive policies impacting on labour markets as a whole. Redesigned EPL to promote more flexible contractual arrangements, active labour market policies, lifelong learning and modern social protection systems should interact with each other, supporting transitions between jobs and contract types, and offering opportunities for workers to progress.

Slow progress in adaptability is a particularly serious problem, considering the increasing need for adaptable labour markets in order to address the challenge of globalisation and demographic change. And yet, adaptability of labour markets, for workers and enterprises, has been a key concept since the beginning of the European Employment Strategy and is key also in the Lisbon process for more growth and jobs<sup>26, 27</sup>.

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<sup>26</sup> See the original pillars of the European Employment Strategy and the current Integrated Guidelines on Growth and Employment from 2005 at:

[http://ec.europa.eu/employment\\_social/employment\\_strategy/guidelines\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/guidelines_en.htm)

<sup>27</sup> While labour market performance is clearly influenced by a mismatch between institutions and the economic structure, the link between institutions and performance is not stable over time. The increased degree of competition in the product markets and the nature of technological progress have changed the labour market response to pre-existing labour market institutions. In a context of the allocation of gains between employers and employees, labour market institutions that maximise social welfare when markets are relatively closed turn out to be too costly in terms of employment loss when markets become more exposed to the international competition. In technical terms, these institutions put a wedge between labour demand and labour supply that can be desirable from distributional viewpoint.

Measures to increase flexibility of labour markets along side measures to ensure or even increase security of workers and individuals have been ongoing. However, results show that it has not been as successful as hoped for. There are still segmented labour markets (increasing in some Member States), high long term unemployment and/or a lack of adaptability on the labour markets in some Member States. There may be behaviour that gives rise to a status quo bias which will keep inefficient institutions from changing. Moreover, because of a general uncertainty on the costs and benefits from reform, different socio-economic groups could be engaged in a *war of attrition* - it takes time for each part to learn about the costs that the other can bear and the conflict can be brought to a standstill - which delays the reform process<sup>28</sup>.

Finally, when reforms entail distributive effects (i.e. they are expected to favour certain socio-economic groups but not others), uncertainty about who will gain from reform can prevent its adoption when the winners cannot commit to compensate *ex-post* the losers<sup>29</sup>. In these cases, non integrated policy measures are more likely to be implemented. However, **treating the individual measures separately**, as currently is the case in most Member States, does not exploit the complementarities between different policies and is less likely to be conducive to a set of consistent policies for achieving our employment targets within European social values and the social model. Indeed, within a context of non integrated and inconsistent flexicurity policies, fewer winners and more losers are more likely to emerge on the European labour markets from accelerated change. The objective of flexicurity must be a win-win situation.

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**Segmented labour markets** represent significant threats to social cohesion in many countries. They are characterized by high protection of some workers, while others have limited opportunities to train and improve their employment situation or are outside the formal labour market in **undeclared work**. Segmentation demonstrates in practice that flexibility and security are treated as a trade-off. It may result in flexibility for some and security for others. Segmentation is linked to **gender segregation** since women are overrepresented in low opportunity employment, part time work and precarious employment. For many workers in this kind of job, transitions between segments are difficult to make; for those most excluded from the labour market, segmentation means lagging within the low pay/no pay option. This has contributed to the persistence of long-term unemployment – especially but not only for specific groups on the **margins of the labour market**, such as youth, migrants, ethnic minorities and disabled –, and to the problem of segmented labour markets, which represent a significant threat to social cohesion in many countries.

As regards demographic change it should be noted that an **ageing population** puts higher pressure on European labour markets. The dependency ratio – number of people aged 65 years and above relative to those aged 15-64 – is set to double and reach 51% by 2050 and the working age population is projected to decrease by 30 million people by 2050. This poses tremendous challenges for the sustainability of our pension and health systems, as well as our labour markets. Economic growth rates are set to decline, mainly owing to the reduction in the working-age population. The projections show that, if current trends and policies remain unaltered, the average annual growth rate in GDP for EU-25 will fall systematically from

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As a stronger product competition reduces the price mark-up and makes labour demand more wage elastic, deregulating product markets increases the wedge, raising pressure to reform the labour market institutions and the cost of non-reform. See Bertola and Boeri (2002), Bertola (2004)

<sup>28</sup> See Alesina and Drazen (1991)

<sup>29</sup> See Fernandez and Rodrick (1990)

2.4% over the period 2004-2010 to only 1.2% between 2030 and 2050. The labour force potential must therefore be fully used and must be used in an efficient way<sup>30</sup>.

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<sup>30</sup> European Policy Committee and European Commission (2006), The impact of ageing on public expenditure: projections for the EU25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-2050), European Economy Special Report No.1. Can be found at:  
[http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2006/eespecialreport0106\\_en.htm](http://ec.europa.eu/economy_finance/publications/european_economy/2006/eespecialreport0106_en.htm)

### 3. MAIN OBJECTIVES

#### 3.1. The flexicurity concept and its added value

Flexicurity belongs to the **Lisbon Strategy and the Integrated Guidelines**, and contributes to fulfilling the objectives of the Employment Strategy of more and better jobs, higher productivity and quality in work and greater social cohesion.

The key principle that underpins the concept of flexicurity is that flexibility and security should not be seen as opposites, but can be made **mutually supportive**. The flexicurity approach therefore goes beyond a simple trade-off between flexibility and security, whereby the former is seen to be in the exclusive interest of the employer, and the latter in the interest of the employee: a high degree of flexibility should go hand in hand with a high degree of employment security, in the interest of both employers and employees. Although the group of people that are **self-employment** are not specifically addressed in the flexicurity approach they are not excluded from the considerations. In fact, comprehensive policies should include an improved promotion of self-employment and entrepreneurship as a flexible way to adapt to changing labour markets. This would not only include related training but also improving the environment for self-employment such as providing start-up capital or facilitating administrative procedures.

Flexicurity constitutes a part solution to **structural unemployment** in the EU and can improve the **competitiveness** of and **job creation** in the European companies by encouraging companies to hire new staff through more flexible labour contracts. At the same time it can strengthen **social cohesion and social inclusion** in line with Lisbon Strategy. This is possible thanks to its integrated approach to the problems of labour markets that implies the exploiting the synergies between the four policy areas: contractual arrangements, lifelong learning strategies, active labour market policies, and social security systems (see box 5). Member States that implemented successful flexicurity type policies have addressed in particular active labour market and social security systems. Piecemeal reforms tend to increase problems like social exclusion and segmentation of the labour market, and as a result, resistance to change – a vicious circle that needs to be broken.

Flexicurity covers **transitions** (i.e. job changes) within an enterprise (**internal flexibility**) as well as transitions from job to job between enterprises and between employment and self-employment (**external flexibility**). It can also ease transitions from unemployment/inactivity or even early retirement to gainful employment. High quality work places with capable leadership, good organisation of work, and continuous upgrading of skills are part and parcel of the concept of flexicurity. This includes measures that maintain and improve work capacity and offer possibilities to reconcile work and family life. All these measures are a key to improved productivity and longer working lives and aim at simultaneously increasing both labour productivity and wellbeing in European work places.

The key point underpinning a flexicurity approach is that, on the one hand flexibility is in the interest of employers, but also of workers; on the other hand, security is also in the interest of both the employees and employers. Security is not a matter of preserving a job for life: in a dynamic perspective it is about building and preserving people's ability to enter, remain and progress in employment throughout the life-cycle. The focus of policies should shift from job security to **employment security**, i.e. from the protection of a given job to supporting

people's transitions from one job to another with a good level of social protection to make transition easier and more successful.

Flexicurity can contribute to promoting **gender equality**, for example by ensuring better possibilities to reconcile work, private and family life, for both men and women. Specifically, it can reduce gender gaps in employment, unemployment and pay, by for example, extending provisions on parental leave for fathers, providing better access to social security and childcare facilities, as well as increasing care facilities for the elderly and disabled. Flexicurity can also improve the situation of women if fixed-term contracts and part-time work become more secure. It can also facilitate all types of transitions of women in the labour market (between inactivity and activity, between working-time regimes, between jobs) by enhancing participation of women in lifelong learning and active labour market policies. Redesigned employment protection legislation can contribute to increase female participation, as well as the participation of disadvantaged groups that the empirical evidence suggests to be more negatively influenced by such restrictions<sup>31</sup>.

Encouraging flexible labour markets and ensuring adequate levels of security will only be effective if workers are given the means to adapt to change, to stay on the job market and make progress in their working life. Therefore, the concept of flexicurity includes a strong emphasis on lifelong learning strategies, in particular adult education and training on the job, complemented by active labour market policies when the transition involves unemployment, supported by adequate social security systems to provide income support during job search periods and allow people to combine work with care. This should also contribute to equal opportunities and gender equality.

Compared to policies merely based on flexibility, flexicurity represents a **clear value added** for the labour markets of the Member States. Whereas flexibility focuses on contractual arrangements and easing employment protection, flexicurity takes into account the importance of investing in people and facilitates their upward mobility in the labour markets. The flexicurity approach is a broad concept, including contractual arrangements, active labour market policies, lifelong learning, and social security systems. (see box 5)

While flexicurity policies – like other employment policies – are designed, implemented and financed mainly at the national level, the establishment of common EU objectives, the exchange of good practice, and mutual learning between Member States, provide added value at European level. Furthermore, all the measures that fall within the Employment Guidelines (including therefore flexicurity policies) are eligible for **European Social Fund** support, which will make available to Member States approximately 70 billion € in the 2007-2013 programming period through multi-annual Operational Programmes.

Labour market reforms are by their nature a relatively slow process. Their implementation due to their political sensitivity often takes years. **Visible results** are even longer in their appearance. Furthermore it is extremely difficult to disentangle precise causalities.

### *3.1.1. Added value of EU action*

At Community level, the common principles should provide a common framework for the different typical "**flexicurity pathways**" identified in this Communication. The pathways

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<sup>31</sup> See Bertola et al.

should in turn allow for a significant strengthening of mutual learning and exchange of best practices - which constitute an essential added value of the Lisbon Strategy and the Open Method of Coordination – on the design and implementation of flexicurity policies.

The implementation of the common principles of flexicurity in the Member States requires the establishment of carefully planned and negotiated combinations and sequences of policies and measures. Since Member States vary considerably in their socio-economic, cultural and institutional background, the specific combinations and sequences will also vary.

However, while flexicurity is not a one size fits all solution, best practices from throughout Europe provides ample opportunity for Member States to learn from each other, by analysing what works best in their national situation.

In this context, a number of broad, "typical" combinations and sequences between the policy components of flexicurity can be identified; these are '**flexicurity pathways**'. The four typical pathways described in the Communication do not reflect the concrete situation of any specific country - but they do each address specific challenges that are pertinent to Member States.

The pathways have been developed analytically on the basis of the Member States' situations, in the 2006 Employment in Europe Report, and in the report of the Flexicurity Expert Group. The pathways serve a twofold purpose: as a policy tool for Member States to draw on while designing their own national flexicurity strategies; and as an instrument for mutual learning and a benchmark in the framework of the Lisbon Strategy and the Open Method of Co-ordination.

Member States, taking account of their own particular situation and institutional background, should consider, in consultation with social partners, the relevant typical flexicurity pathways and design their own national pathway towards better combinations of flexibility and security.

#### **Box 5: The four components of flexicurity**

The challenges of ensuring flexible labour markets and high levels of security are very broad and complex; therefore, it is impossible to define the different ingredients and aspects of flexicurity in an overly detailed and precise way to cover all possible situations.

However, there is a broad agreement on the policy content of flexicurity: the Commission and the Member States, drawing on previous experience and on work by academics and international institutions such as the OECD and the ILO, have reached a consensus on a definition of flexicurity which comprises four components<sup>32</sup>:

- **Flexible contractual arrangements**, both from the perspective of the employer and the employee, through modern labour laws allowing for sufficiently flexible work arrangements and reducing labour market segmentation and undeclared work.
- **Reliable and responsive lifelong learning systems** with particular emphasis on adult education and training on the job to ensure the continuous adaptability and employability of workers, thereby facilitating career advancement and moves from job to job.

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<sup>32</sup> Components adopted by the Council in the Joint Employment Report, February 2006. The report can be found at: [http://ec.europa.eu/employment\\_social/employment\\_strategy/jer\\_en.pdf](http://ec.europa.eu/employment_social/employment_strategy/jer_en.pdf)

- **Active labour market policies (ALMP)** which effectively help people to cope with rapid change, unemployment spells and transitions to new jobs.
- **Modern social security systems** which provide adequate income support during job search periods and are supportive to labour market mobility by embedding appropriate eligibility and job availability rules and effective incentives to work and further training.

Particular attention should be given to **social dialogue**, which embodies a shared tradition that proactive policy-making can be to everybody's benefit. Social partners are often best placed to address the various needs of employers and workers, and detect synergies between them. Similarly, a **tripartite approach** with the active involvement of the social partners and public authorities is often a necessary element for successful flexicurity policies.

It should be noted that the objectives of the "Jobs Strategy" of the OECD, as "restated" in 2006<sup>33</sup>, largely correspond to those of the Lisbon Growth and Jobs Strategy (including a macro, a micro and an employment pillar). In this context, the four ingredients of flexicurity as presented in the Commission Communication are broadly covered in the OECD Jobs Strategy, which inter alia calls for: i) make sure that employment protection legislation helps labour market dynamism and provides security to workers; ii) active labour market programmes should be regularly assessed [so] that the mix of programmes is adjusted to suit the needs of jobseekers and the labour market; iii) facilitate the development of labour force skills and competences; and iv) implement well-designed unemployment benefit systems and active labour market policies.

### 3.2. General objective: Contributing to the Lisbon Strategy for Growth and Jobs

The general objective of flexicurity is to contribute to the overall strategy for **more and better jobs, higher productivity and quality in work and greater social cohesion**. It will help Europe to strengthen its social model(s) and its social values and achieve the agreed targets of 70% employment overall, 60% for women and 50% for older workers by 2010.

The EU's main response to the challenge of globalisation is the revised **Lisbon Strategy for Growth and Jobs**. The Integrated Guidelines for growth and jobs call upon Member States to promote flexibility combined with employment security and reduce labour market segmentation (IG 21)<sup>34</sup>. Flexicurity is fully in line with the main thrust of the Lisbon strategy, and contributes to its implementation: it increases adaptability of workers and enterprises while at the same time supporting those among the workforce who may be left behind by economic change. As such, flexicurity can contribute to the **positive management of change and strengthen public support**.

### 3.3. Specific objectives

The design and implementation of flexicurity policies can contribute to a number of specific objectives which fall within the aims of the Lisbon Strategy and of the European Employment Strategy. These specific objectives are designed and implemented mainly at the national level, and co-ordinated at EU level through the Employment Strategy and the Lisbon Integrated Guidelines.

<sup>33</sup> OECD (2006), "OECD Employment Outlook, Boosting Jobs and Incomes"

<sup>34</sup> Integrated Guidelines for growth and jobs 2005-08, adopted in 2005.

Flexicurity aims to increase the **productivity** of individuals through active labour market policies and continuous lifelong learning. Flexicurity also aims to improve **matching on the labour market** since more adaptable individuals will be able to find new employment and fill the supply gaps in the labour market more easily.

In particular, flexicurity can contribute to reducing **segmentation** (see glossary for an explanation) of European labour markets. Segmented labour markets with insiders and outsiders are reflected by high long-term structural unemployment in Europe. Reducing segmentation will improve welfare, participation, solidarity and dignity<sup>35</sup>. A secure job is considered key to move out of poverty. Many groups of people are at least partially excluded from the labour market. This concerns mostly women, long-term unemployed, young people and people with disabilities. A lot of workers are also trapped in less secure employment or undeclared work. They do not have the opportunity to progress into better jobs, whereas the others enjoy a high degree of security. There is no single measure or indicator of segmentation. One indication could be the number of new jobs using fixed term rather than permanent contracts.

Flexicurity can also help to transform **undeclared work** into regular employment by providing workers with additional security and a possibility to upgrade their skills in order to better match the needs of the labour market. By its very nature it is difficult to find quantification of the extent of undeclared work. A report by the European Employment Observatory gives estimates according to different measurement and sources indicating that undeclared work is a severe problem in many countries<sup>36</sup>.

Flexicurity can provide "**security of employment**" through a high level of access to training, subsidised jobs and social security measures needed during the period of transition from job to job. Flexicurity can provide equal pension rights to all employees, regardless of the form of their contract.

Flexicurity can contribute to **creation of new jobs** and increasing employment by encouraging, through more flexible contracts, enterprises to hire new staff.

Flexicurity can reduce **youth** unemployment, and precarious jobs often held by young people, in line with the Lisbon strategy and the European Youth Pact, by facilitating their entrance to the labour market and by providing better vocational training and apprenticeships.

Better access to training and lifelong learning means improvement of **work capacity, higher productivity and longer working lives**. It is important from the point of view of the competitiveness of the European economy and employability of workers. It helps to secure a workforce for various employment profiles that are needed in a knowledge-based society. Active labour market policies can effectively support the return to employment as well as help the development of the unemployed towards a new job.

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<sup>35</sup> See the Communication from the Commission on European Values in the Globalised World, 20.10.2005 COM(2005) 525 final, the EU Charter on Fundamental Rights and the Berlin Declaration (Declaration on the occasion of the fiftieth anniversary of the signature of the Treaties of Rome) of 25 March 2007.

<sup>36</sup> European Employment Observatory review autumn 2004. Can be found at: [http://ec.europa.eu/employment\\_social/emplweb/publications/publication\\_en.cfm?id=30](http://ec.europa.eu/employment_social/emplweb/publications/publication_en.cfm?id=30)



Flexicurity aims to contribute to the **development of SMEs** which represent 99% of all enterprises in Europe and about 70% of private sector jobs and which are one major source of job creation and growth in Europe. Small businesses require internal and especially external flexibility in order to cope with the challenge of globalisation. Internal flexibility (within the firms) means adjustable arrangements for working hours, use of part-time or overtime work. External flexibility is connected to rules on, and costs of, employing workers. A variety of contracts types may reduce costs. Collective bargaining arrangements can also have an effect on these costs for SMEs.

Flexicurity can contribute to promoting **gender equality** by taking into account different needs of women and men at the labour market, for example when it comes to reconciliation of work and private life. It can result in reducing gender gap in employment, by for example, extending provisions on parental leave for fathers, providing better access to social security and childcare facilities, as well as increasing care facilities for elderly and disabled.

Flexicurity can also contribute to promoting **non-discrimination**, by, for example, helping the integration of people with disabilities into the labour market. It can take into account the specific needs of this group of people through, for example, adapted timetables or specific working conditions. It is particularly important in an ageing society such as Europe's where the number of people with disabilities is increasing.

A key aspect is also to **promote social dialogue** on flexicurity policy implementation. European social partners have successfully negotiated agreements about parental leave, part time work and fixed-term contracts. In addition to this, there are also autonomous agreements on telework and lifelong learning. Many aspects relating to flexicurity belong to the competence of the social partners. The participation of social partners and other stakeholders should be ensured in the development, monitoring and evaluation of policies – in order to create a common agenda and joint responsibility for change. Collective agreements and companies can provide conditions for modern work organisations, improving internal numerical (working hours, rosters) as well as functional flexibility within a secure context. Moreover, social partners in the EU and in the Member States are responsible for a variety of recommendations, guidelines, guides to good practice, joint opinions and declarations<sup>37</sup>.

The concept of flexicurity includes an important **(territorial) regional and trans-national dimension**. Firstly, international economic integration requires more and more flexibility as regards inter-regional, national and international labour mobility. As a consequence, there is an increasing need to address the aspect of adequate training (e.g. language skills) or the adaptation of social security systems (e.g. in relation to the trans-national transfer of social security rights). Moreover, economic and social conditions are very different not only between Member States but also between regions. Solutions to promote flexicurity thus need to be tailored to the different national and regional circumstances.

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<sup>37</sup> See e.g., the Work Programme of the European Social Partners 2006-2008 where the balance between flexibility and security is mentioned as one of the key challenges in view of which a joint analysis will be undertaken.

## 4. POLICY OPTIONS

### 4.1. Basis for the policy options

The **2006 Spring European Council** specifically asked the Commission to explore the development of a set of "**common principles of flexicurity**" (see section 1). The Commission, in its January 2006 Annual Progress Report, concluded that EU countries do not yet adequately respond to the adaptability challenge. Thus, Commission and Council agreed that Member States should pursue reforms in labour market and social policies in accordance with the concept of flexicurity. In the **Spring European Council 2007**, the Council declared that it looks forward to the discussion on the Commission Communication on flexicurity, which should be instrumental in preparing a range of flexicurity pathways to find the right mix of policies tailored to labour market needs including increased labour-market participation.

The **Employment Guidelines**, as part of the Integrated Guidelines in the Lisbon Strategy, **already include the priority to increase the adaptability of workers and enterprises**. The current guidelines address adaptability and segmentation as well as the components of flexicurity.

The **Open Method of Coordination** in the field of social inclusion and protection addresses the modernisation of social protection systems, income security, active labour market policies and access to education.

At the request of the Commission, **European Social Partners** have successfully negotiated agreements about parental leave, part time work and fixed-term contracts. In addition to this, there are also autonomous agreements on telework and lifelong learning.

### 4.2. Option 1: No additional EU action

A first policy option is the **status quo** option in which most Member States treat the four components, for the most cases, separately on the basis of existing experience on their side.

Member States would continue implementing measures in line with the Integrated Guidelines and the Lisbon Strategy; however not in an integrated flexicurity approach.

### 4.3. Option 2: Comprehensive legislation on flexicurity at EU level

According to EC Treaty articles 136 and 137, some aspects of the specific components of flexicurity can in principle be subject to legislation at Community level. Indeed, significant legislation already exists in a number of areas, in particular: working conditions, social security and protection, dialogue between management and labour, human resources, integration of persons excluded from the labour market, and gender equality.

However, Community legislative competence is not the same for each of the components of flexicurity, which to a great extent refer to policy measure to be implemented within the legal, institutional and political frameworks of each Member State.

The employment and social protection policies that constitute flexicurity are essentially a competence of Member States, with active involvement of social partners. In this context,

**legislation at the national level** on some (or part) of the components of flexicurity already exists, as part of Member States' competencies in the field of employment and social policy. However, the extent and scope of legislative action varies between the different components of flexicurity (e.g. social security versus lifelong learning), and between Member States (e.g. on labour market contracts).

**Community legislation** also covers some of the aspects of flexicurity policies, although the scope of legislation at EU level varies even more than national legislation, depending on the level of Community competence. On labour law in particular, the Commission has presented a **Green Paper** in order to launch a public debate in the EU on how labour law can be updated to meet the key challenge of greater adaptability of workers and enterprises. On the basis of the results of the Green Paper consultation, the Commission will present a Communication in the autumn of 2007 (see box 3 above).

Given the nature of flexicurity as described in the Communication that this Impact Assessment supports, the different components of flexicurity cannot be considered separately, since an **integrated approach** is what provides the added value of flexicurity, and it is not possible to cover the whole range of flexicurity policy through a comprehensive legislative package, be it at national or Community level. If a comprehensive legislation package, though very complex, were possible, it would indeed be counter-productive because of it being a "one size fits all" approach.

It should also be noted that the Member States, and the European Council conclusions, have clearly stated that they expect from the Commission a proposal on common policy principles and a range of flexicurity pathways tailored to the different labour market needs of each Member State.

The principles of subsidiarity and proportionality, enshrined in the EC Treaty, should be taken into account in the formulation of all and thus of flexicurity policy.

Flexicurity falls essentially within the framework of the European Employment Strategy (EES), initiated, as amended by the Amsterdam Treaty at the Luxembourg European Council of November 1997, as the main tool to give direction to and ensure co-ordination of the employment policy priorities to which Member States should subscribe at EU level.

EU Heads of State and Government thus agreed on a framework for action based on the commitment from Member States to establish a set of common objectives and targets for employment policy. This co-ordination of national employment policies at EU level is built around an annual process of guidelines agreed at the Council level, national action plans from the Member States and a joint report by the European Commission. This process was revised in 2005 to improve coordination between Member States and the European institutions on the one hand and, on the other hand, to better coordinate employment policies with macroeconomic and microeconomic policies of the EU.

In light of the above, on the one hand, there is no legal base for comprehensive supranational initiatives on employment, since the responsibility for employment policy is under the exclusive responsibility of the Member States. On the other hand, while the EC [http://ec.europa.eu/employment\\_social/employment\\_strategy/develop\\_en.htm](http://ec.europa.eu/employment_social/employment_strategy/develop_en.htm) - top#top Treaty does not change the basic principle of the Member States having the sole competence for employment policy, it does attribute to the Council and the Commission a stronger role, new tasks and more forceful tools; it integrates the European Parliament more closely into the

decision making process; lastly, the responsibilities and potential contribution of the social partners were also enhanced through the inclusion of the Social Protocol into the EC Treaty.

The Commission in particular has an important role to play: to promote co-operation between Member States at EU level, by taking initiatives, reporting on employment trends and prospects and undertaking research and analysis, by promoting dissemination of information, and by assisting the Member States in their fight against unemployment and social exclusion with Community funding, mainly through the European Social Fund.

In this context, it is important to note that the EES initiated a new working method at EU level - the 'open method of co-ordination' (OMC) - with subsidiarity as one of its key principles. The OMC establishes an equilibrium between European Union level co-ordination in the definition of common objectives and outcomes, and Member States' responsibilities in deciding the detailed content of action. The definition of the means and conditions under which policies and measures are implemented is left to a large extent to individual Member States, who are responsible for their employment policy under the EC Treaty.

The flexicurity approach is fully in line with the OMC and its emphasis on subsidiarity. Thus, at the EU level, the Commission, upon the request of the Member States, will present in its Communication a proposal for common policy principles and a range of flexicurity pathways tailored to the different labour market needs of each Member State. The EU level will also serve as a common platform for mutual learning and the exchange of good practices among EU Member States. The formulation and implementation of concrete flexicurity policies will take place at the national level in line with the Lisbon process and the Open Method of Co-ordination".

In conclusion, a Commission proposal for a comprehensive legislative package at EU level on flexicurity is **not a viable option**, both politically and operationally (on grounds of subsidiarity and proportionality); the impact of this option will therefore not be discussed in next section.

#### **4.4. Option 3: Flexicurity approach through the open method of coordination**

This policy option does not imply any new processes, no new reporting and no additional administrative costs. It would require at EU level **improving the policy tools that already exists**. The flexicurity approach would thus be articulated in the Integrated Guidelines of the Lisbon Strategy, and would be monitored through the National Reform Programs.

This option should be based on **Article 127 of the EC Treaty**: "The Community shall contribute to a high level of employment by encouraging cooperation between Member States and by supporting and, if necessary, complementing their action. In doing so, the competences of Member States shall be respected."

The option is based on Lisbon Strategy and the **Open Method of Coordination**, whereby Member States are themselves mainly responsible for implementation. Member States agree on common objectives and targets and country specific recommendations are issued as political pressure for reforms. A key component of the Open Method of Coordination is mutual learning. The experience with the European Employment Strategy - and subsequently the Lisbon Agenda - has shown that there is an added value of mutual learning and this kind of cooperation at the EU level.

#### 4.4.1. *Sub-option 1: One flexicurity approach for all*

One sub-option is to propose an agreement at EU level on a single flexicurity approach, covering all components for all Member States and specifying how they should act. This option would use the same approach for all Member States, regardless of their different institutional settings, traditions (e.g. as concerns social dialogue), social protection systems, and budgetary constraints.

#### 4.4.2. *Sub-option 2 : Common principles including typical pathways*

Another sub-option is to establish a series of broad **common principles** and **different pathways**, to be adopted by the Member States on the basis of a Commission proposal.

The **common principles** of flexicurity, as requested by the European Council, aim to start and facilitate positive debates at national level. They result from consultation with stakeholders, Member States and other EU institutions, from the work of the external expert group on flexicurity, and from the findings of studies and research carried out by the Commission and other international institutions. They specify the objectives to be achieved with flexicurity policies and the issues to be taken into account. For example, the common principles could stress that labour market policies and labour law reforms need to address the interests of insiders as well as outsiders in the labour market, while at the same time reducing the divide between them.

**Typical flexicurity pathways** result from the work of the external expert group on flexicurity, and from the findings of studies and research carried out by the Commission and other international institutions<sup>38</sup>. These pathways address four typical challenges existing in the Member States while remaining sufficiently few to act as useful benchmarks. They would be studied and examined by Member States and inspire national flexicurity pathways as part of their policy mix of aiming to improve labour market outcomes. Each Member State, taking account of its own particular situation, including the financial position of the public and private sector, and institutional background, would design and implement its own pathway towards better combinations of flexibility and security, and report on it in their 2007 National Reform Programme.

The common principles and typical pathways would take account of the **different situations in Member States**; namely institutional settings, traditions (e.g. as concerns social dialogue), social protection systems, and budgetary constraints. At the same time, they would provide a framework from mutual learning and for policy development through the established processes of Lisbon and of the Open Method of Coordination.

#### **Box 6: The content of the typical pathways**

In addition to the four policy components specified for the pathways (flexible contractual arrangements, active labour market policies, effective lifelong learning and modern social security), the Communication identifies the following policy challenges to be addressed. These four pathways address four typical challenges existing in the Member States:

Pathway 1: tackling contractual segmentation.

<sup>38</sup> The Commission's Employment in Europe 2006 report, the Expert Group report on Flexicurity, restated OECD Jobs Strategy.

This typical pathway is of interest to countries where the key challenge is segmented labour markets, with insiders and outsiders. This pathway would aim to distribute flexibility and security more evenly over the workforce. It would provide entry ports into employment for newcomers and it would promote their progress into better contractual arrangements.

Pathway 2: developing flexicurity within the enterprise and offering transition security.

This typical pathway is of interest to countries with an under-dynamic labour market. It would increase investments in employability to allow workers within enterprises to continuously update their capabilities and thus be better prepared for future changes in production methods, organisation of work. This pathway would also look beyond the actual job and the actual employer, by putting in place systems that provide safe and successful job to job transitions in the case of company restructurings and redundancy.

Pathway 3: tackling skills and opportunity gaps among the workforce.

This typical pathway is of interest to countries where the key challenge is large skills and opportunity gaps among the population. It would promote opportunities of low-skilled people to enter into employment and develop their skills in order to obtain a sustainable position at the labour market.

Pathway 4: improving opportunities for benefit recipients and informally employed workers.

This typical pathway is of interest to countries which have experienced substantive economic restructuring in the recent past, resulting in high numbers of people on long-term benefits with difficult perspectives of returning to the labour market. It would aim at improving opportunities for benefit recipients and shifting from informal to formal employment through development of effective active labour market policies and lifelong learning systems combined with an adequate level of unemployment benefits.

## 5. ANALYSIS OF IMPACTS

The Communication on flexicurity is a strategic paper, suggesting a broad range of policies and specific actions to be identified and implemented by each Member State. More importantly, the Communication is the start of a process, which should lead in the medium term to a better balance between flexibility and security in all Member States. The actual impact of flexicurity will depend on how Member States implement policies on the ground.

The analysis of impacts hereafter takes into account this specific nature of the Communication it aims to support. It should also be noted that, given the nature of the Communication and its policy area, no direct impact on the environment is expected.

### 5.1. The impact of no additional EU action (option 1)

As stated in the Joint Employment Report adopted in February 2007, there is a lack of action to increase the adaptability of labour markets in the Member States despite the need for adaptability in a situation of globalisation and an ageing population. This option does not provide such an integrated approach - it is a **status quo** option. Many of the current problems of the EU labour market, as identified in the Lisbon process, remain unsolved, particularly as concerns segmented labour markets, long term unemployment and, more generally, the adaptability to globalisation.

New social risks are increasingly affecting all Member States, although with varying degrees and impact. They cannot be addressed exclusively or separately through traditional social protection or flexibility measures. The challenges to be addressed are not just about globalisation; social structures are also changing dramatically, and national social protection policies are still often organised around a traditional, the stable nuclear family, model. The structure of public expenditure is thus often based on traditional and stable family and work patterns (pensions, health assistance et cetera) and ignores the new family types, immigration, more female employment, and lifelong learning needs. The EU and its Member States must respond to these new social risks as urgently as to trade and investment openness, since they are all part of the same process of modernisation, although the nature and impact of these risks will vary according to the different situations or "pathways".

#### 5.1.1. *Social impact*

The problems identified, with its social impacts in section 2 risk to remain and even increase. This would mean a highly segmented market in some countries with insiders and outsiders, particularly affecting young people and women. A high degree of undeclared work would persist in many Member States. People at the margins, would continue facing difficulties in getting in to the labour market or making the transition from precarious jobs . Social cohesion will be increasing at risk in several Member States.

#### 5.1.2. *Economic impact*

As with the social impact, the economic impacts of the problems identified in section 2 also risk to remain, and increase. Companies that face or perceive high firing costs in the event of difficult situations or when restructuring, may be not interested in starting a new business in the country concerned or in expanding their business, be very reluctant to employ people on permanent contracts and be tempted to rely on informal and non-standard employment

contracts. All this may result in a segregated labour market. The overall effect will be less dynamism, lower investment, and disappointing aggregate demand and employment. Compared to treating the four components separately, effective use of resources and synergies resulting from combining different policies in a consistent framework may also lead to important financial savings. For given budget outcomes, tax rates will be higher or fiscal resources lower to invest in productive growth enhancing areas such as education and R&D.

## **5.2. The impacts of a flexicurity approach through the Open Method of Coordination (option 3)**

### *5.2.1. Sub-option 1: One flexicurity approach for all*

Moving all Member States in one direction via, for example, a detailed set of Employment Guidelines, would imply difficulties since **starting positions, institutional settings, traditions and budgetary constraints differs** between Member States. Forcing Member States in one direction, not adapted to their own reality, situation and labour markets would not be feasible. A country with budget constraints could face difficulties in implementing pathways that may require disbursement of public funds not covered with general taxation or social contributions. A strong social dialogue and development of trust that is a prerequisite for flexicurity in some countries can not easily be transferred into other countries. If proposed by the Commission, many Member States would object.

#### 5.2.1.1. Social impact

One single flexicurity approach would in most cases not be optimal since it would not address the specific problems and situation in each Member State. Social impacts of different stakeholders and target groups would likely not be addressed properly. This would mean a highly segmented market in some countries with insiders and outsiders, particularly affecting young people and women. A high degree of undeclared work would persist in many Member States. People at the margins, would continue facing difficulties in getting in to the labour market or making the transition from precarious jobs (for explanation see glossary). Social cohesion will be at increasing risk in several Member States.

#### 5.2.1.2. Economic impact

The economic impacts, namely the impact on employment, productivity and growth, would be far from optimal. The reason is the same; a single flexicurity approach would not address the specific problems facing different Member States. The outcome could be similar to option one, described in 5.1.2, since the specific problems in each respective Member State could not be addressed through one single pathway for all Member States and the problems would not be solved.

One single Danish style model could be costly<sup>39</sup> for many Member States if adopting a model that demands much higher expenditure than the country currently puts on these issues. The tax

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<sup>39</sup> The Employment in Europe report 2006, EiE2006, notes the implied increase in passive labour market policy, spending that would result from the adoption of the spending intensity (per unemployed) of the three higher spending countries (NL, DK and BE). The unweighted increase in passive labour market policy expenditure across the EU would amount to 2.7 percentage points of GDP. The implied average increase in total spending on labour market policies as a percentage of GDP would therefore amount to over 4 percentage points. Increases in government expenditure would be particularly large in new and



burden could be heavy if the country's high spending on labour market programmes and unemployment benefits is financed through taxes<sup>40</sup>. In situations with a high unemployment level, a move toward increasing levels and coverage of unemployment benefit and active labour market policy will, in the short run, trigger a sharp increase in the cost, thereby widening the tax wedge, with an adverse impact on labour demand and supply. This implies that a model, involving generous benefit levels and a large extent of active labour market policy may not be suitable for countries currently facing high unemployment and budgetary difficulties.

Nonetheless certain key aspects of a successful model could be studied and considered by other countries. This leads us to the second option, different pathways based on common principles.

### 5.2.2. *Sub-option 2: Common principles including typical pathways*

The Communication will be a basis for discussions and agreement on a common set of principles in the Council. **The impact of the Communication and the proposed common principles themselves** will be that a **political process will start** between the Commission, the Member States and the other stakeholders.

On a Member State level, the European Employment Strategy and the Lisbon Strategy will be implemented, covering flexicurity. On an EU level, Member States will through **mutual learning** learn from each other and exchange views on how to improve flexicurity in their respective Member State. The Communication will be a framework and basis for discussion. Good examples and policies could be transferred to other Member States. This would be enhanced in an option where different pathways are established, based on common principles.

The **impact of flexicurity** will therefore depend on **how Member States will define their own policies**, and on how these policies are implemented at the national level. Flexicurity falls into the broader framework of the Lisbon Strategy and will be monitored, assessed and evaluated accordingly (see section 7).

The Employment in Europe 2006 report concludes that a consensus is emerging among stakeholders, international organisations, and the academic community that countries should adopt institutional configurations in the labour market that better combine the requirements of flexibility and security – in other words “flexicurity”<sup>41</sup>. This implies that, in an environment where workers experience more frequent transitions between employment and non-employment, and between different kinds of employment, policies need to put in place the right conditions for individuals to successfully manage these transitions, thereby ensuring sustainable integration and progress of individuals in the labour market.

In addition to the Danish one, examples of other **approaches to flexicurity** include that of the UK and HU of providing strictly conditional job search allowances instead of high unemployment benefits, and combining efficient incentives to find a new job or participate in

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Southern European Member States. The magnitude of the resources involved clearly indicates that models with high spending on unemployment benefit per active labour market policy cannot easily be transplanted to other Member States without undergoing significant adjustments

<sup>40</sup> October 2006 IMF Country Report No. 06/342

<sup>41</sup> Employment in Europe report 2006, chapter 2, which can be found at:

[http://ec.europa.eu/employment\\_social/employment\\_analysis/eie/eie2006\\_chap2\\_en.pdf](http://ec.europa.eu/employment_social/employment_analysis/eie/eie2006_chap2_en.pdf)

training, with in-work benefits to those who take up low-paid jobs. The NL model of the Life Course Arrangement Scheme can also be mentioned. This scheme provides tax incentives for individuals to save money on individual accounts which can be used later for several purposes, e.g. for training, sabbatical leaves, child rearing, early retirement etc.

#### 5.2.2.1. Social impact

The flexicurity approach tailored to the specific circumstances of a Member State, will contribute to solving the problems described in section 2. In short, flexicurity can contribute to improving chances of employment, reducing **segmentation** and undeclared work; it can provide the **employment security** through high level of access to training, subsidised jobs and social security measures needed during the period of transition from job to job; better access to training and lifelong learning means improvement of **work capacity, higher productivity and longer working lives**; a key objective is also to **foster social dialogue** on flexicurity.

Flexicurity policies address the difficult situation of certain groups on the labour market. It will facilitate entrance for **people at the margins**, in **undeclared work** and the transition to better jobs for people in **precarious employment** overrepresented by the long term unemployed, the disabled, youth, immigrants, and women. In this respect it can help to implement the **European Youth Pact**, by facilitating entrance and providing more employment to young people through better vocational training and apprenticeships; it can contribute to promoting **gender equality** and the **European Pact for Gender Equality** by ensuring better possibilities to reconcile work and private life for both men and women, reducing gender segregation and improving the situation as regards employment and social security and transitions; it can also contribute to promoting **non-discrimination**. It can reduce the fear of change, breaking the vicious circle of fear of change causing rigidities which make the economic situation worse.

#### 5.2.2.2. Economic impact

The appropriate flexicurity policies can contribute to reaching the Lisbon goals of higher growth, competitiveness, more and better jobs and social cohesion. The positive social impacts described above will contribute to these objectives. In addition, flexicurity can constitute a solution to **structural unemployment** in the EU and can improve the **competitiveness** of European companies; it will increase the **productivity** of individuals through lifelong learning and active labour market policies; it can improve **matching on the labour market**; it improves the **adaptability of enterprises** which is especially crucial for job creation and development of SMEs (see also section 3).

Few studies have been able to show the impact of a flexicurity approach on growth, productivity, labour markets and social cohesion. However, those countries currently having a more flexicurity orientated approach has comparatively good levels of employment, productivity and growth. Higher growth and employment rates imply higher government revenues which offset the high levels of expenditure associated with extensive social protection systems. There are on the other hand studies showing problems resulting from not having a flexicurity approach, pointing at specific components and ingredients, e.g. poorly implemented lifelong learning, that would be changed when applying a flexicurity concept.

In the reassessment of the Jobs Strategy, the OECD, found that countries that often are referred to as having a flexicurity mix have average employment protection strictness, high

generosity in unemployment benefit systems, very much active labour market policy, very high union coverage. The employment rate is high, the unemployment rate is low and the income inequalities and relative poverty rate is lower than average<sup>42</sup>.

### 5.2.2.3. Other impacts

#### *Job creation*

It should be kept in mind that flexicurity pathways should be pursued in a wider context of sound **macro- and micro-economic policies**. According to the revised OECD Jobs Strategy, the interaction of macroeconomic policies with reform packages plays an important role in determining labour market performance. Flexible and open product markets enable firms to seize new opportunities, create and expand businesses, thereby creating jobs. Well-functioning and sustainable capital markets provide innovators and entrepreneurs with efficient access to finance, enabling them to fund new ideas and create new businesses in the economy, which again has a positive effect on levels of job creation and opportunities in the labour market<sup>43</sup>.

#### *Impacts on productivity*

OECD has studied the relationship between social and labour market policy and **productivity**, which for some aspects are closely related to the flexicurity concept<sup>44</sup>. The results show that stringent statutory **employment protection** for regular contracts appears to dampen productivity growth, most likely by restricting the movement of labour into emerging, high-productivity activities, firms or industries. Results for other policies are more tentative: higher **minimum wages** (not a core component of flexicurity), for example, appear to be associated with higher productivity, but it is unclear to what extent this occurs as the result of improved provision of employer-sponsored training or whether it is due to simple substitution of high-skilled for low-skilled workers, the latter channel having important distributional consequences whose desirability must be assessed. Clearly, more research is needed on the channels through which minimum wages affect productivity. **Family-friendly policies** (again, not a core flexicurity component) that encourage sustained workforce participation by parents appear also to increase productivity by allowing workers with family responsibilities to maintain their links to the workforce in general, and to their existing jobs in particular, although these results are somewhat sensitive to the empirical specification used. There is also some scattered evidence that reforms that reduce the generosity of the **unemployment benefits** tend to depress productivity, by reducing the time and/or resources available to the unemployed to find a well-matched job vacancy and by discouraging firms from creating high-risk, high-productivity jobs. Yet, the overall long-run impact of lowering unemployment benefits on GDP per capita (incorporating positive employment effects and negative productivity effects) appears to be negligible.

#### *Financial impacts*

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<sup>42</sup> See <http://www.oecd.org/dataoecd/47/53/36889821.pdf>

<sup>43</sup> These issues were underlined during the Hampton Court meeting of the European Council (October 27th, 2005)

<sup>44</sup> More jobs but less productive? The impact of labour market policies on productivity: OECD, DELSA/ELSA/WP5(2007)2

Flexicurity pathways naturally have financial implications for Member States, for workers and for employers. Workers, while changing jobs, may have to take recourse to unemployment benefits more quickly, and possibly more often; active labour market policies and lifelong learning may also require additional finances. However, more effective policy formulation and more efficient use of existing budgets is often crucial. For example, unemployment benefits tend to be more effective in smoothing expected income uncertainty when subject to proof of job search. By financing job search, unemployment benefits reduce the likelihood of periods of inactivity. The financial cost of flexicurity should be placed against the direct benefits of enhanced labour market dynamism and reduced costs of restructurings as incurred by enterprises, and against the more general societal benefits of enhanced competitiveness, higher employment and activity rates and increased productivity. One study estimates that a 10% increase in ALMP spending per unemployed reduces by 0.4% the unemployment rate<sup>45</sup>. Early intervention cuts the long-term costs of unemployment, associated ill health and social exclusion<sup>46</sup>. It has been estimated that individuals undertaking on the job vocational training earn on average 5% more than those who have not<sup>47</sup>.

Negotiations on flexicurity pathways should take into account the need to share costs (and benefits), in particular between business and public budgets.

### **Box 7: The financial aspects of flexicurity, as analysed by the External Experts Group**

The External Experts Group report looks at the financial aspects of the pathways, thereby concluding that investments do have to be made, in various degrees, either by the governments, employers or workers themselves, but that in the long run the benefits will almost certainly outweigh the costs as labour market participation will go up, (long-term) reliance on social security benefits will decrease and administrative costs can be reduced. From this perspective, it is essential that Member States engage in a broader debate on risk allocation and risk sharing and the idea of mutual risk management.

#### **1. Make contractual arrangements more flexible and secure**

Measures to reduce asymmetries between typical and atypical contracts may involve some public costs if social security provisions are to be adapted to cover specific kinds of contracts not previously covered. This may also involve costs for business when it concerns entitlements paid for by the employer, such as, for instance, rights to training or supplementary pensions. Business also benefits from a better trained workforce and higher public acceptance of (former) atypical work, which may reinforce labour market dynamism.

The introduction of a tenure track approach to work contracts does not imply significant increases in public expenditure. It may include some costs for enterprises when employees who would otherwise have continued to work on consecutive atypical contracts gradually increase their level of protection. Benefits for government budgets can be substantial to the extent that the tenure track approach stimulates easy entry into employment, and "automatic progress" into more secure contractual relationships. This may increase employment and reduce the risk of falling back into unemployment.

<sup>45</sup> Bassani and Duval, "Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions", OECD WP n° 35, 2006

<sup>46</sup> Iskra Beleva, Long-Term Unemployment as Social Exclusion, Human Development Report, UNDP 1997

<sup>47</sup> De la Fuente and Ciccone, "Human capital in a global and knowledge-based economy", May 2002

Redesign of labour law and in particular provisions with respect to dismissal and redundancy, may, depending on its nature, imply a reduction in redundancy and legal costs for enterprises. Enterprises gain financially when economic restructuring can be conducted more quickly and with less administrative hurdles. Improved predictability of outcomes of dismissal procedures due to clearer legal rules is also a financially tangible asset. In exchange for redesigned dismissal procedures, employers may have to bear part of the financial responsibility for helping redundant workers find another job. This may take the form of a personalised contribution to the individual worker, or of a dismissal tax, to be paid into the unemployment benefit system (as proposed by Cahuc/Kramarz and Blanchard/Tirole), as far as this would not hinder job creation and the hiring of new staff. Particular attention should be paid to SMEs, in particular micro-enterprises with less than 10 staff, that have limited financial resources for contributing. A substantial part of financial resources that is now being used for redundancies, to "buy off" workers' protection against dismissal, or to conduct court cases, can be redirected to finance safe job transitions. Although this may reduce direct financial gains for employers, the main advantage for them will come from the increased scope to conduct company restructuring within a shorter time frame and in a more predictable environment.

## **2. Upgrade active labour market policies to strengthen transition security**

Strengthening active labour market policies (ALMPs) is likely to imply increases in government expenditure. These policies are usually considered as a component of unemployment costs but financed directly from general government revenues (see below). In ALMP literature it is suggested that ALMPs do not become more effective simply by increasing total expenditure. Their effectiveness is partly dependent on the close interplay between carrots and sticks (i.e. the design of activation policies), quality and labour market relevance of trajectories, a tailor-made approach to the individual's position and preferences, anti-discrimination policies, combination security and dynamism on labour markets. In some countries, it would seem that ALMP expenditure in itself is high enough but effectiveness needs to be increased. In other countries, there is clearly a need for extra resources and thus increased budgetary expenditure (at least in the short run). Some countries having to make such investments under financially constrained conditions would be supported by EU funding, in particular by the European Social Fund.

## **3. Lifelong learning systems**

Improved lifelong learning will require better but also more expenditure, in particular in adult education and training on the job. The most significant proportion of the workplace training costs is currently borne by employers. The effectiveness of training expenditures could be increased by pooling resources at industry level. Through individual training accounts, workers can be given the right to a certain amount of training. This would reduce disincentives faced by employers to invest in training resulting from the present risk of "poaching". In addition to the role of enterprises, public authorities may also stimulate lifelong learning, e.g. through tax deductions and/or through higher public spending depending upon the specific constraints in the Member States concerned. Specific measures and public support concerning SMEs should be considered due to their limited resources. In most countries workers can also be made part responsible for investments in lifelong learning and the taking up of current training offers. Therefore, workers may also bear some of the costs, but not necessarily of a financial nature. A non direct financial cost would be contributing their time.

#### **4. Reform social security provisions with a view of supporting labour market mobility and adjustment**

The financial implications of flexicurity policies may result from the need of developing an integrated system of active and passive policies. Although better unemployment benefits when financed via taxation or social security contributions, in principle, would not have large impact on net public expenditure, the need of an institutional setting able to run integrated active and passive policies may entail financial costs due to intensified ALMPs. Flexicurity proposals may call for redesigning employment protection legislation (EPL) in tandem with making unemployment benefit (UB) and welfare assistance schemes supportive to labour market mobility. Thus, at the same time flexicurity also implies that contractual diversity is complemented and supported by adequate social protection, the incentives of which provide a good balance between rights and duties. A difference between EPL and unemployment benefits is that expenses linked to unemployment benefits show up in government budgets whereas costs associated with EPL do not. Even if the public expenses rise, the total economic cost of workers' protection remains unchanged.

Unemployment benefits can be financed by (1) general taxation (such as in Denmark), (2) social contributions by employers and workers or (3) by some degree of "own contribution" by the firing enterprise. A dismissal tax (see above) is one way of implementing the latter option, a system of experience rating, as operated in the US, is another. In the US, something between 1/3 and 2/3 of unemployment benefits are paid by the firing firm, and the rest is spread evenly across all enterprises. Systems like experience rating, by putting a price on dismissals, run the risk of creating a disincentive for employers to hire people. This would be a reason to limit the share of the UB expenses financed through such systems. The largest share of the cost of the unemployment benefit system should be financed either through government budgets or through social contributions, evenly spread among the enterprises. Since the employers experience the most direct benefit from lowering the costs of dismissal protection (EPL), it would seem fair that the (extra) UB expenses linked to such a shift are borne by them.

Tax reforms could also serve as an important step within flexicurity pathways. Lowering taxes on wages (to be offset by e.g. an increase in green taxes or consumption taxes and targeted tax allowances or tax credits could be instruments for increasing the possibilities of better integrating marginalised groups into the labour market. Reduced low-wage taxes could also limit the informal sector and thus integrate informal workers into mainstream employment.

The **European Social fund** for the 2007-2013 programming period can provide a significant Community financial contribution for Member State to support flexicurity approach, for example by providing funds for training at company level, in particular in SMEs or active labour market measures including job finding assistance for the unemployed. In addition to the ESF, which has a major role to play, the European Regional Development Fund and the European Agricultural Fund for Rural Development can also contribute to flexicurity policies.

##### 5.2.2.4. Impact on Third Countries

Flexicurity aims at increasing jobs, growth and the competitiveness of European firms. Better **resource allocation** will be expected. More adaptable labour markets would mean that companies would be more inclined to invest in Europe raising employment and effective demand. Higher demand at a macro level in Europe could have a positive effect on imports

from, and thus income in, third countries. Successful flexicurity approaches in the Member States, taking advantage of the positive aspects of globalisation would lead to over all growth.

#### 5.2.2.5. Obstacles to compliance

For successful implementation of a flexicurity approach, Member States and the social partners need to **be committed** to reform. In this respect, consultation on a national level is crucial; with social partners in particular. In addition, **effective implementation** of the policies needed is vital. Among the most important possible impediments to flexicurity policies are financial constraints (5.2.2.3.3 and Box 7) and political constraints (1.2.3).

Compliance also might require re-allocation of funding. As regards EU support it should be recalled that the 2007 – 2013 programming structure of **European Structural Funds**, the European Social Fund (ESF) is perfectly adapted to financing flexicurity policies in Member States. For the 2007-2013 programming period, the ESF will devote 13 billion Euros specifically to enhance the adaptability of workers, enterprises and entrepreneurs through the development of systems and strategies for lifelong learning in companies. Another 22 billion Euros will support ALMPs including access to employment and the sustainable inclusion in the labour market of job seekers (especially long term unemployed) and inactive people. Further, as a new priority, ESF will also support strengthening institutional capacity and the efficiency of public administrations across all areas of government (including regional and local level) with approximately 2.5 billion Euros.

#### 5.2.2.6. Administrative costs

A flexicurity approach through the Open Method of Coordination would be implemented via the existing policy and administrative instruments, both nationally and at EU level; through the EMCO and the Employment Strategy within the new Lisbon cycle for the period 2008-2010. The same applies to reporting, monitoring and evaluation, as explained in section 7 hereafter. Therefore, there would be no significant additional administrative cost either for the Commission or for Member States.

## 6. COMPARING OPTIONS

### 6.1. No additional EU action versus EU action

Looking at the impacts of these two options, there is a clear value added of EU action in the field of flexicurity (see section 3). With no-additional EU action, we would have the status quo. Through the employment guidelines and the Lisbon Strategy, the different components of flexicurity are included. The Joint Employment Report<sup>48</sup> has however shown that flexibility and security mostly are treated separately and that the problems described in section 2, with for example a need for more adaptable labour markets are not met.

### 6.2. Comprehensive legislation at EU level versus the Open Method of Coordination

For most of the flexicurity components, legislation seems not to be an option either through lack of relevance or current lack of political will. Member States have signalled that they are not interested in EU legislation on for example active labour market policy or social security arguing for subsidiarity. Member States have indicated that there is an interest for coordination in the field of flexicurity through common principles<sup>49</sup>. Most areas within the flexicurity concept fall under the competence of the Member States. The flexicurity Communication is however a first step in a process and appropriate legislation at an EU level might be considered in the future.

### 6.3. One single flexicurity model versus different pathways and common principles

Looking at the impacts of these two options and given that **starting positions, institutional settings, traditions and budgetary constraints differs** between Member States, no single flexicurity model seems feasible for all. Member States cannot and should not be expected to follow the same path, hence the second option, one single model, seems not optimal (and politically unrealistic).

Many Member States do however face common problems, for example: segmented labour markets where some workers enjoy a high degree of security while others are trapped in less secure employment or undeclared work with fewer opportunities to progress into better jobs. Different pathways with policies based on flexicurity can help overcome this dichotomy, by improving opportunities for people to enter the labour market and move from one job into a better one, or from temporary contracts into more stable work relationships.

Building on the idea that Member States are different and have different starting positions, the **Experts Group on Flexicurity** appointed by the Commission (see section 1) has analysed the differences and similarities between Member States with respect to flexicurity and its components. On this basis they were able to define a series of "typical flexicurity pathways". These pathways describe the challenges shared by different types of situations to which Member States can relate, and the sets and combinations of measures that could improve a country's performance in terms of flexicurity. The report has served as an input for the Communication.

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<sup>48</sup> Joint employment report 2006/2007, adopted on 23rd of February 2007, doc number 6706/07

<sup>49</sup> The conclusions can be found at:

[http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/89013.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/89013.pdf)



The option of "flexicurity pathways building on common principles" acknowledges and **underlines the differences** in the starting points linked to the specific situations of Member States. It also shows that different flexicurity pathways reflect underlying "common principles" of flexicurity; for example, the need for broad support from workers, business and other relevant actors in society; the need to take into account the interest of insiders as well as outsiders on the labour market; or the importance of a climate of trust between social partners in which all the actors concerned accept responsibility for change.

It needs to be highlighted that **Member States themselves are to choose which pathway(s) they relate to** (and there might be examples of Member States feeling that they belong to several pathways). This, of course, will mean a considerably more challenging coordination role for the EES than with a single model.

**Box 8: Comparing the options at the stakeholder conference**

At the stakeholder conference on the 20<sup>th</sup> April there was a general view that the status quo is not an option and that the flexicurity issue must be addressed (see box 2). The stakeholders, including Ministers, social partners, non governmental organisations and the European Parliament, stressed that one size does not fit all and showed an interest in different pathways and principles. They also stressed the role of the open method of coordination. Many stakeholders highlighted the complications that would arise with a legislative approach.

This underscores the attractiveness of the third option, and in particular sub-option 2 of common principles including typical pathways.

## 7. MONITORING AND EVALUATION

### 7.1. Monitoring

The flexicurity concept **does not imply any new process and no new Open Method of Coordination**. Flexicurity policies are in the field of the existing Open Method of Coordination within the Lisbon Strategy and Employment Strategy and policy implementation is therefore decided on at Member States' level. According to article 127 in the EC Treaty, the Community shall contribute to a high level of employment by encouraging cooperation between Member States and by supporting and, if necessary, complementing their action. In doing so, the competences of the Member States should be respected.

Monitoring and measuring progress in Member States on flexicurity parameters will be possible using **the instruments in place** in the context of the Employment Strategy and the Open Method of Coordination in social protection and social inclusion. Most of the necessary **indicators** are already agreed with the Member States and data are available on a regular basis. Together with the Employment Committee and the Social Protection Committee, DG EMPL is identifying a set of indicators relevant for each of the four elements of flexicurity (flexible contractual arrangements, lifelong learning, active labour market policies, and modern social security systems), as well as outcomes (in particular the contribution to labour market dynamism, employment and reduction of long-term unemployment). Joint work with the Joint Research Centre on composite indicators of flexibility and security will complement this. (see annex 1). The on-going work with the Member States on indicators and monitoring should help ensure the proper implementation of flexicurity policies.

The **Employment Guidelines**, as a part of the integrated guidelines for growth and jobs, set out common priorities for Member States' employment policies. Next year, a new cycle for the years 2008-2010 begins and a revised guideline package will be adopted. The Commission aims to propose that flexicurity will be integrated better in the employment guidelines. This will allow better follow up and monitoring of the process achieved in the Member States. Moreover, Member States could be asked to report in their National Reform Programmes about progress made and problems encountered with the selection and implementation of the chosen flexicurity pathway or of a combination of different pathways. It should be underlined that Member States will be encouraged to explain how they have ensured proper stakeholder support for these pathways.

### 7.2. Evaluation

Member States **National Reform Programmes** for jobs and growth and the Implementation Reports, taking the employment guidelines into account, will allow the Commission to follow up and evaluate progress towards flexicurity for each Member State. Member States are themselves evaluating each others progress in implementation of reforms in the multilateral country examination.

The **Employment Committee**, EMCO, will continue its work on flexicurity in 2007. A Sub-Group, the Ad Hoc Group, will provide support by making a review of good practices for each of the four ingredients of the flexicurity (contractual arrangements including internal flexibility, lifelong learning strategies, active labour market policies, and social security systems).

The Commission will be able to evaluate progress in outcome and in the different components of flexicurity through agreed **quantitative indicators** (see annex 2). The role of the other EMCO Sub-group, the Indicators' group, together with the Indicators Sub-group of the Social Protection Committee, is to provide technical advice and support and to develop, revise and improve indicators. A broad range of indicators do already exist to evaluate the employment guidelines, including key aspects of flexicurity. Moreover, DG Research is sponsoring a network to identify existing data sources that are of relevance to the tension between labour market flexibility and socio-economic security<sup>50</sup>. Also relevant forthcoming research under the **7<sup>th</sup> Research Framework Programme** with a specific attention to issues related to growth, employment and competitiveness in a knowledge society will support the Commission and Member States in developing flexicurity policies.

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<sup>50</sup> In close cooperation with the RECOWE [European Data Centre \(EDACwowe\)](http://www.EDACwowe.eu) the aim is to produce data inventories that clearly point to the whereabouts of data sets containing relevant indicators (see [www.RECOWE.EU](http://www.RECOWE.EU)).

## **Annex 1: background indicators of flexicurity used to support the assessment**

Indicators are currently discussed by the Member States and Commission within the Indicators Group of the Employment Committee. Discussions are also ongoing in the indicators group of the Social Protection Committee, especially with regard to the fourth component of flexicurity (modern social security systems). The indicators below were presented to both indicator groups, and work is now ongoing to develop a comprehensive list to monitor flexicurity:

### ***Flexible contractual arrangements through modern labour laws***

- Indicator of the strictness of employment protection, total, for permanent and for non-permanent employees (OECD; Index scale 1 to 6).
- Share of employees with fixed-term contracts (EUROSTAT)
- Share of employees with part-time contracts (EUROSTAT)

### ***Credible lifelong learning systems***

- Percentage of the total population 25-64 participating in education and training (EUROSTAT)
- Educational attainment of age cohorts 45-54 and 25-34 (share of the population with at least upper secondary education (OECD)
- Active Labour Market Policies
- Expenditure on ALMPs, as a percentage of GDP as well as the expenditure intensity per unemployed (EUROSTAT)
- Share of adult workers not having received a new start within 12 months (EU target)

### ***Modern social security systems***

- Net replacement ratios in the first year as well as after 5 years (OECD)
- Degree of strictness in the availability rules of labour market policies (Danish Ministry of Finance, 2005)
- Coverage of unemployment benefits for flexible workers, which includes part time, temporary and self-employed (ALPHAMETRICS)
- Unemployment trap (EUROSTAT)
- Tax wedge on labour cost (EUROSTAT)

### ***Labour market outcomes***

- Employment rates, total, for women, and for older workers (EUROSTAT)

- Unemployment rates for young people 15-24 (EUROSTAT)
- Labour turnover (EMPL)
- Long-term unemployment (EUROSTAT)
- Labour productivity (EUROSTAT)
- Growth in labour productivity (EUROSTAT)
- Undeclared work as a percentage of GDP (Regioplan and Inregia 2004)

## Annex 2: glossary

**Lifelong learning** comprises both formal school education and learning/training of the workforce (continuous training of workers, training of the unemployed and inactive). "*Lifelong learning must be understood as all learning activity undertaken throughout life, with the aim of improving knowledge, skills and competences [...]*", Council Resolution on lifelong learning of 27 June 2002.

**Labour market policies** (LMPs) are essentially public interventions in the labour market that are targeted towards particular groups in the labour market. LMPs are generally grouped into either active or passive measures. **Active labour market policies** (ALMPs) aim to increase the likelihood of employment or improve income prospects for the unemployed persons/groups who find it difficult to enter the labour market. **Passive labour market policies** (PLMPs) aim to provide income support to unemployed people or early retirees, without, *a priori*, attempting to directly improve their labour market performance.

**Labour market segmentation.** In traditional economic thought the labour market is assumed to be one single entity. Labour market segmentation, sometimes known as "dual labour markets" or "insiders and outsiders" describes a labour market that is not a homogeneous entity, but is composed instead of two or more segments. The mechanisms and structures at work with regard to job security, access to training, salaries, etc. differ fundamentally among segments. The *secondary sector* can be characterised by low-wage jobs, less restrictive employment protection legislation, less access to training, and a high degree of job insecurity. The *primary sector*, on the other hand, can be characterised by high-wage jobs, better access to training, and job security. Mobility between the sectors tends to be restricted.

**People at the margins.** People who mainly due to low skills have difficulty finding stable employment and as a consequence are more dependent on benefits and social services (e.g. public employment services) than other groups can be referred to as the people at the margins of the labour market. (See EMCO Working Group Report on: "Enhancing higher productivity and more and better jobs including for people at the margins of the labour market", 2006).

**Precarious work** is a term used to describe non-standard employment which may be poorly paid, possibly undeclared, insecure, and unprotected.

**Transitions** are changes from one status to another. For example transition can take place between unemployment and work or a transition can take place from one job to another.

**The Open Method of Coordination** rests on guidelines and indicators, benchmarking and sharing of best practice (so called mutual learning, see below) and is often termed as "soft law". This means that there are no official sanctions if Member States do not meet the recommendations, targets etc. Rather, the method's effectiveness relies on a form of peer pressure and the desire of Member States to implement effective policies. **Mutual learning** is one key component in the Open Method of Coordination. The main objective is to encourage exchange of good practice and that Member States and stakeholder should learn from each other. Key to this is identifying the transferability of good practices.

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