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# European Employment Observatory Review: Autumn 2006

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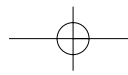
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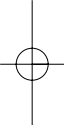
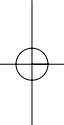
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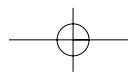
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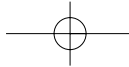


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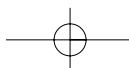
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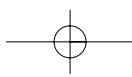
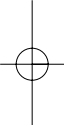
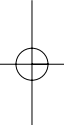
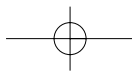
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# OVERVIEW OF SYSDERM EXPERTS' NATIONAL ARTICLES ON FLEXICURITY SUBMITTED AT THE END OF NOVEMBER 2006

## 1. INTRODUCTION

This publication is the *European Employment Observatory Review* for autumn 2006. It is based on national articles provided by the Sysderm experts covering 30 countries (EU-27, candidate countries Croatia and Turkey, and EEA country Norway). The national articles are available on the EEO website: [www.eu-employment-observatory.net/](http://www.eu-employment-observatory.net/). Readers are strongly encouraged to refer to the national articles as they contain rich evidence and argument about flexicurity<sup>(1)</sup> — the balance between flexibility and security in national labour markets. Sysderm experts were asked to describe and analyse 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.

### 1.1. Background to flexicurity

In recent years, the globalisation of the economy, the emergence of new players on the world economic stage rich in labour resources and the rapid development of new technologies have intensified competition and increased the pace of change. While this has generally contributed to growth and employment, it has also brought with it significant and often painful transformations for workers and enterprises. More than ever before, both enterprises and workers are required to be adaptable and flexible if they are to survive in this new global competitive environment. These challenges have led to calls for (and in many cases the implementation of) reforms aimed at creating more flexible labour markets. Although the standard, open-ended, full-time employment relationship remains the norm, many countries have seen significant increases in the number of 'atypical contracts' (such as fixed term and tem-

porary agency work). As a result, many Europeans now see an irreconcilable gulf between companies' demands for greater flexibility and workers' interests in having stable employment relationships with good career prospects. Politicians and other policymakers are therefore increasingly striving to find ways of combining policies which maximise the benefits of flexibility and security. The aim is to achieve a framework for increasing productivity, innovation and competitiveness, while at the same time addressing the challenges of social exclusion resulting from high unemployment and the emergence of a segmented labour market. In the context of the rapid ageing of European societies and the challenges posed to social protection systems, policy approaches are also needed to address workers' need to balance paid work with caring responsibilities. This has come to be termed a 'flexicurity' approach.

The European employment strategy calls for labour market institutions to adopt 'flexicurity' principles. The 2005/06 *Joint employment report* states that those principles should comprise the following elements:

- the availability of contractual arrangements, providing adequate flexibility for both workers and employers;
- effective active labour market policies supporting transitions between jobs, as well as from unemployment and inactivity to employment;
- credible lifelong learning systems enabling workers to remain employable throughout their careers, by helping them to cope with rapid change, unemployment spells and transitions to new jobs;
- modern social security systems combining the need to facilitate labour market mobility and transitions with the provision of adequate income support during all absences from the labour market.

(1) Chapter 2 of the *Employment in Europe* report, 2006, summarises the prevailing definitions of flexicurity 'primarily based on the idea that the two dimensions of flexibility and security are not contradictory, but mutually supportive'. Wilthagen and Rogowski (2002) described flexicurity 'as a policy strategy that attempts synchronically and deliberately, to enhance the flexibility of labour markets, work organisations and labour relations, on the one hand, and employment and income security, notably for weaker groups in and outside the labour market, on the other'. In 2004, Wilthagen and Tros put forward a wider definition which maintains that flexicurity is 'a degree of job, employment, income and combination security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows for enduring and high-quality labour market participation and social inclusion, while at the same time providing a degree of numerical (both external and internal), functional and wage flexibility that allows for labour markets' (and individual companies') timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity'.

The issue of flexicurity is at the heart of the Commission and Council agendas and the Commission has undertaken to publish a communication on the subject during 2007. In preparation for this communication a number of activities are under way, including the work of a tripartite expert group. Chapter 2 of the 2006 *Employment in Europe* report (EiE, 2006) seeks to present a preliminary characterisation of the balance between flexibility and security across the Member States and an assessment of labour market outcomes of such an approach.

The term 'flexicurity' was first coined in the Netherlands, following the aftermath of the labour law reform of 1999 (the Flexibility and Security Act; Wilthagen and Tros, 2004). The 'Dutch' definition identifies four elements of the flexibility dimension:

- external numerical flexibility (describing the difficulty/ease with which employers can hire and fire or use fixed-term contracts);
- internal (firm) numerical flexibility (the difficulty/ease of changing the quantity of labour without resorting to hiring and firing);
- functional flexibility (the difficulty/ease of changing work organisation internally and externally the ability of workers and employers to adapt to change);

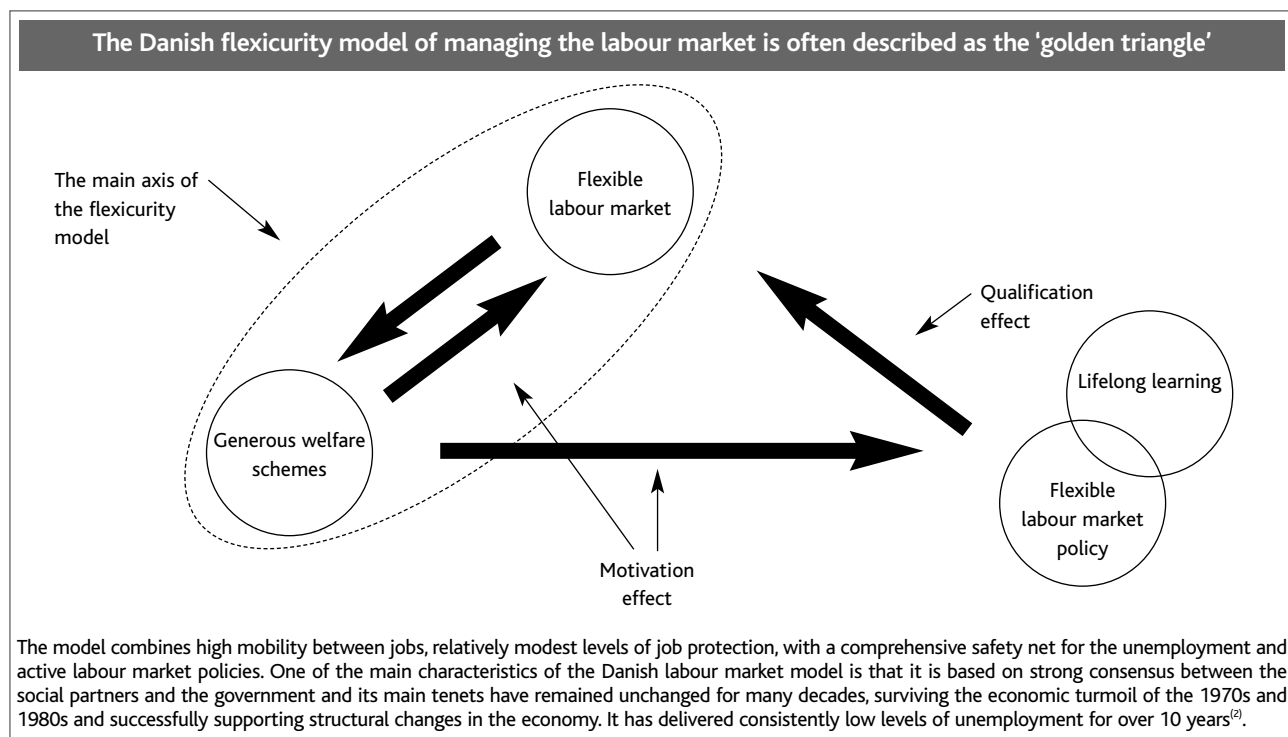
→ wage flexibility (wage responsiveness to economic conditions).

Similarly, there are four elements identified within the security dimension:

- job security (security of tenure of a specific job);
- employment/employability security (expectations regarding remaining in work);
- income security (degree of income protection if paid work ceases);
- combination security (the ability/inability to combine paid work with other private or social activities).

The second key definition of the term was initially developed for Denmark and is often encapsulated in the term 'the golden triangle' combining comparatively loose EPL with a relatively generous social safety net and high spending on ALMP. This model combines high external numerical flexibility with high levels of income security and high levels of employment/employability security and has delivered among the highest employment rates and lower levels of unemployment in Europe.

The balance of flexibility and security is therefore determined at a national level by a complex network of policies



(2) Per Kongshøj Madsen, Contribution to EEO autumn review 2006 'Flexicurity'.

and institutions including labour market, social and education policies, developed in relation to a country's macro-economic performance as a whole.

A 'flexicurity' approach to labour market management would appear to advocate a loosening of EPL combined with increased investment in lifelong learning and ALMP, together with an approach to unemployment and welfare benefits weighted towards 'making work pay'. However, before such an assumption can be made, it is necessary to look at the impact of changes in the individual components of such an approach (particularly on different groups in the labour market), the way they are interlinked with other policies and the level of support at the governance level for such policies.

Looking firstly at EPL, the EiE (2006) underlines the significant difference between EU countries regarding the strictness of the regulation of the labour market, which has developed over many years in line with each country's industrial relations and policy traditions. A significant amount of research has been carried out to assess the effect of EPL on employment. Results show that EPL generally has two opposite effects. On the one hand, it tends to reduce the separation rate from employment into unemployment. On the other hand, it decreases the exit rate from unemployment into work, as it makes employers more cautious about hiring. The overall impact of EPL on employment has largely been found to be modest, although significantly it has been argued that it could harm the employment prospects of vulnerable groups. Stricter EPL tends to lead to lower in- and outflows from unemployment and longer unemployment duration, but also increases average job tenure. While it has been argued that long job tenure and therefore lower labour re-allocation inhibits the flow of labour from less dynamic sectors to more dynamic ones, thus lowering productivity and economic growth (Hopenhayn and Rogerson, 1993), other researchers have argued that longer job tenure has a positive effect on employer investment in human capital, boosting productivity (Auer et al, 2005; Nickell and Layard, 1999; Lazear, 1979). Interestingly, research has also shown that the strictness or otherwise of EPL has little or no impact on employees' perception of their own job security.

In the context of the economic changes outlined above, many Member States have sought to create a more flexible framework of EPL to speed up labour market adaptation. However, because of the socio-political difficulties with pushing through wide-ranging labour law reforms, flexibility has often been created at the margins, particularly through an increase in the use of temporary work, thus increasing labour market segmentation. Although this has contributed to employment growth in many countries

and evidence shows that there is a significant transition rate from temporary to open-ended employment (the stepping stone effect), there are concerns about the creation of a group of 'outsiders' on the labour market who lack the same access employment security, training and promotion prospects. Interestingly, the EiE 2006 report argues that the loosening of rules for temporary contracts can trigger an easing of employment protection rules for standard contracts as an increase in atypical employment lowers the clout of insiders, thus (politically) paving the way for further reforms.

Looking at the impact of unemployment benefit and ALMP on labour market outcomes, research indicates that high and long-lasting unemployment and social assistance benefits are associated with a higher rate of unemployment. However, such negative impacts can be moderated through effective sanctions imposed on those not actively seeking work and the implementation of successful ALMP. The OECD (2006) suggests that ALMP spending is associated with lower aggregate unemployment, with training measures in particular having a beneficial impact on employment outcomes.

The EiE report 2006 recognises that while a flexicurity strategy essentially calls for a loosening of EPL and greater expenditure on ALMP, such an approach can not only face popular opposition but also impose high fiscal costs, particularly at times of economic decline and high unemployment. Such policies may therefore be difficult to implement at Member State level. It is emphasised that any calculation of potential costs must also take into account the social and economic cost of a lack of ALMP intervention (e.g. in terms of UB and welfare payments).

The report goes on to attempt a classification of EU countries into a number of flexicurity models using the dimensions of spending on active and passive LMP (on the security axis) and EPL and LLL (on the flexibility and employability axis). 'The major fact emerging from this analysis is that the dimensions of flexibility and security in the labour market are complementary...' However, it is acknowledged that such results are 'tentative and preliminary' and further investigation is necessary. At the same time it is essential for consensus building to take place between governmental actors, social partners and the wider public to generate acceptance for a flexicurity approach. With respect to this, systems with a long tradition of corporatist interest intermediation between social partners and the government tend to show more successful outcomes in this respect. At the same time this, as well as the complex policy interaction of flexicurity policies, show that successful national approaches are not easily transferable into other institutional and policy set-ups.



## 2. FLEXICURITY DEBATES

This chapter summarises the key elements of the debates in the 30 countries covered (see Table 1) which are described more fully in the Sysdem experts' national reports.

One of the main drivers and challenges of the debate about flexicurity in the countries covered by the EEO is the need to maintain and/or increase competitiveness and economic growth and address problems in the labour market. Indeed, the loss of jobs, stagnating growth, the high number of unemployed people and significant labour market segmentation call for finding effective policy solutions, and here discussions on liberalising labour markets yet maintaining a social safety net are prominent.

In a number of EU Member States, the debate on flexicurity is also significantly influenced by recent reforms, which mostly sought to increase flexibility in the labour market and address existing labour market rigidities, especially in hiring and firing employees. This was reported in Estonia, Greece, Italy, Lithuania, Portugal and Slovakia.

In the candidate countries (e.g. Croatia) and new Member States (Bulgaria and Romania), the debate about flexicurity has been largely shaped by the EU accession process which saw new labour regulations being adopted to comply with EU requirements.

In most countries, however, the term 'flexicurity' is new to the public debate and heard rarely. Until 2004, this was the case even in Denmark, which is considered to be the textbook model of flexicurity. This is hardly surprising given that the term itself is recent. However, in some countries the term 'flexicurity' is widespread in the public debate, especially:

- where flexibility in the labour market has been introduced for some time (e.g. Austria, the Netherlands, Sweden);
- where the EU accession process instigated changes to the labour market regulations (e.g. Bulgaria).

Even where the concept itself is not widely discussed as such, components of flexicurity are frequently debated and receive intense attention in the majority of EEO countries.

Indeed, in some countries, the balance between flexibility and security is a central feature of the labour market. Here it is possible to differentiate between those combining high flexibility with high security (i.e. Nordic countries, Austria) and those with high flexibility but significantly lower security for workers (e.g. Ireland, the Netherlands, the UK).

In contrast, in a number of countries the balance between security and flexibility is not considered a policy priority for a variety of reasons:

- where the national focus is on different policy choices. In Germany, for example, regular full-time work is considered the norm and the focus has been to raise productivity in existing workplaces rather than seek external flexibility. However, certain elements of flexicurity have begun to appear in debates in Germany as well (e.g. when employees in some industries have agreed to reducing working hours or pay in exchange for job security for a certain period of time);
- where strong labour market conditions and low unemployment rates do not highlight the need for flexicurity (e.g. in Cyprus with a large presence of foreign workers and self-employed);
- where leadership and consensus building regarding flexicurity are fragmented (e.g. the Czech Republic with a polarised political environment; and Poland where the view is to create its own version of flexicurity); or where the focus is on individual elements, rather than a comprehensive strategy (e.g. Estonia).

In most countries, social partners largely maintain traditional views on the balance between security and flexibility in the labour market, with unions emphasising the security element and opposing increased flexibility and employers favouring greater liberalisation and flexibility in the labour market. The concept of flexicurity, and the rebalancing of flexibility for employers' security of workers, therefore appears as a challenge to the traditional views of the social partners and the traditional adversarial, 'us vs. them', workers vs. management culture of the workplace.

In the public debate, trade unions emphasise the security component, fearing that increasing flexibility would diminish workers' rights, their protection against redundancies and threaten the quality of work. Trade unions usually support flexible working hours for employees but argue for maintaining or increasing employment protection and social benefits. There are, however, exceptions to such views where trade unions have cautiously welcomed the flexicurity concept, albeit with certain reservations (e.g. Malta).

Employers and employer representative organisations tend to favour the flexibility element, arguing for greater liberalisation of the labour market, lighter regulation of hiring and firing of staff and working hours, more flexible work contracts and the increased use of fixed-term and temporary contracts. For employers, it is argued, such

increased flexibility would allow them to become more competitive and productive, thus creating more employment opportunities.

Common ground for trade unions and employer representatives appears to be the need to develop human capital and increase the participation of employees in training and learning activities. This consensus was highlighted, for example, in the debates in Bulgaria, Lithuania, Portugal, Spain and the UK, although the means by which this is to be achieved are not always agreed.

In a few countries where there is a strong social dialogue, the debate has evolved around finding a balance between flexibility and security to meet both employers' and employees' needs (e.g. Denmark, Sweden and Norway, but also in Ireland). This is hardly surprising, as the flexicurity model stems mostly from the Nordic experience where strong social dialogue has allowed the elements of flexicurity to be negotiated. In several countries, social dialogue and debate on the elements of flexicurity has begun and social partners are increasing their involvement in negotiating the elements of flexicurity (e.g. Luxembourg, and also in one of the new Member States, Romania).

Strong social dialogue does not guarantee, however, that consensus on flexicurity can be found between social partners. Indeed, after a period of broad consensus on the first steps on the road to flexicurity during the 1980s and 1990s, the Dutch debate shows that stakeholders disagree on EPL as one of the key flexicurity elements and oppose the policies adopted by the government. Similar clashes were reported in Lithuania, where social partners have found no common position on the principles of flexicurity.

In several countries, the development of a dialogue on flexicurity is hindered by the weakness of social dialogue and partnerships which play a limited role in the public debate and policy formation. This was reported in Estonia, Latvia, Poland, Croatia, but also in the UK. This is mostly due to the weakness of trade unions which have low

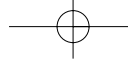
membership, especially in the private sector, or the lack of a culture of social dialogue in national governance models.

The positions of national governments on the concept of flexicurity range from actively supporting the flexicurity model (e.g. Denmark, Sweden) to considering it to be a low priority (e.g. Cyprus, Germany, Slovenia). However, it is sometimes difficult to identify a unified government position. Indeed, often different ministries within the government tend to emphasise different elements of flexicurity with the employment ministry highlighting workers' rights and the economy ministry advocating the pro-business case of liberalising labour markets.

In several countries, reforms aimed at increased flexibility have been driven and implemented by national governments for some time (e.g. Estonia, Greece, Italy, Lithuania, the Netherlands, Romania, the UK and Croatia). In other countries, national governments have welcomed the discussion of flexicurity, but with certain reservations, highlighting the need to adapt it to particular circumstances (e.g. Portugal, Spain).

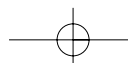
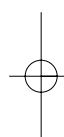
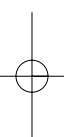
Interestingly, the model of flexicurity has been welcomed in several countries by third sector organisations, which see flexicurity as a way to provide employment for people currently outside the labour market. This was highlighted, for example, in Turkey, where women's organisations are advocating flexicurity to address the problem of significant female unemployment.

To sum up, the term 'flexicurity' is beginning to appear more frequently in the public debate in EEO countries. Its constituent elements, however, have been debated for some time, driven by the need to address the persisting labour market problems and increase the productivity and competitiveness of national economies. The flexicurity model challenges traditional views of social partners and hence its success is at least partly dependant on the ability of key stakeholders to negotiate a balance between the interests of workers and employers.



**TABLE 1 → OVERVIEW OF THE NATIONAL DEBATES ON FLEXICURITY — SUMMARISED FROM THE SYSDERM EXPERTS' NATIONAL REPORTS ON FLEXICURITY (EEO, 2006)**

Country	Challenges and drivers of the debate	Key positions of the main stakeholders			Prominence of flexicurity debate	Other observations
		Trade unions	Employers and employer organisations	Government and other stakeholders		
<b>Belgium</b>	Demographic ageing and low labour market participation by older, unskilled and migrant workers.	Emphasis on security (increase social benefits) and employability (increase life-long learning).	Emphasis on flexibility, especially the use of temporary work.	Emphasis on ALMP and (re)integration of older workers.	The concept of flexicurity is not used. The key elements, however, are debated.	A wage norm and other flexicurity key elements are negotiated by social partners in intersectoral agreements.
<b>Bulgaria (joined the EU 1.1.2007)</b>	Driven by EU accession process.	Sufficient flexibility in employment relations; need to raise wages.	More flexibility, debate about abolishing overtime restrictions and State intervention in determining wages.	Third sector supports secure employment of at-risk groups.	Continuously developed during accession process; part of key employment policy documents.	Key discussions are over regulation of wages, social protection and employability of labour force. Consensus on the need to improve education and training.
<b>Czech Republic</b>	Polarised political environment; fragmented leadership and consensus building over flexicurity.	Oppose flexibility in hiring and firing and employment contracts; support flexible regulation of working hours.	More flexibility in hiring and firing and the use of fixed-term contracts.	Public opinion sees a painful trade-off between security and flexibility.	Concept little used and vaguely understood.	Little discussion over measures ensuring security of employment (when switching jobs).
<b>Denmark</b>	Textbook example of flexicurity. Strong social dialogue has shaped the current model.	A common understanding of principles of flexicurity, especially that high social security spending is important for a flexible labour market. Danish flexicurity involved a series of negotiations and compromises between the social partners.			Concept relatively new, but the Danish model has developed over the last few decades.	Flexicurity is a cornerstone of the Danish labour market.
<b>Germany</b>	Regular full-time work considered the norm. The focus has been on raising productivity in existing workplaces and increasing internal flexibility.	Sceptical about flexible forms of employment and against the deregulation of redundancy laws.	Promote internal flexibility of core staff and use flexible forms of employment for peripheral tasks.	Federal government prefers approaches aimed at improving internal flexibility but restricting external flexibility.	Discomfort with flexicurity approach.	Various elements of flexicurity have been introduced gradually.
<b>Estonia</b>	Recent reforms have increased flexicurity.	In general, social partners are weak and their influence is limited to a consultative role in the government decisions on aspects of flexicurity. Trade unions are in favour of stronger security (e.g. higher unemployment benefits, maintaining current dismissal rules), while the employers support relaxation of dismissal rules and are against any increases in labour costs. Flexicurity elements are regulated by legislation adopted by the government and not by collective agreements.			New concept; no public debate so far.	Policy discussions focus on individual elements rather than on a comprehensive reform package.



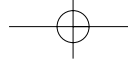
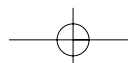


TABLE 1 (CONT.) → OVERVIEW OF THE NATIONAL DEBATES ON FLEXICURITY — SUMMARISED FROM THE SYSDEM EXPERTS' NATIONAL REPORTS ON FLEXICURITY (EEO, 2006)

Country	Challenges and drivers of the debate	Key positions of the main stakeholders			Prominence of flexicurity debate	Other observations
		Trade unions	Employers and employer organisations	Government and other stakeholders		
Ireland	Strong economic growth, low unemployment rate, influx of foreign workers.	Strong social dialogue ensured security of employees in a liberal business environment whilst maintaining a flexible approach to the labour market.		Pro-business, non-interventionist national policy.	Whilst the term is not used, its key elements feature strongly in public debates and key policy documents.	Combining security and flexibility through the medium of social partnership contributed to success of Irish economy.
Greece	Extensive labour market segmentation means that flexibility and security are treated as opposites.	Demand higher security.	Seek greater flexibility.		The term has not been used yet in public debates, but certain elements have been discussed.	The government actively involves social partners in adopting elements of flexicurity. Reforms to combat labour market rigidities are undertaken.
Spain	Loss of competitiveness, high prevalence of temporary contracts.	Openly welcomed the debate about flexicurity.	Greater flexibility, especially setting wages according to workers' productivity and promoting geographical mobility of labour, reducing labour costs (including dismissal costs).		Debate on compatibility of flexibility and security has been welcomed.	Social partners agree on the need to increase investment in vocational training.
France	Recent reforms have increased an already high segmentation of the labour market.	Welcome the principle of more security for employees.	Welcome a deep reform of the French labour legislation.	Introduce more flexibility with CPE and try to with the CNE.	Debate exists but the term generally used is <i>securisation des parcours professionnels</i> .	The liberal candidate for the president elections, Mr Sarkozy, is open to a reform that introduced a single contract of employment model to limit the segmentation.
Italy	Recent reforms to increase flexibility in work contracts; significant labour market segmentation.	Maintain employment security for permanent workers.	Greater flexibility to reduce labour costs.	Current government is more supportive of measures to combine increasing external flexibility and improve security.	Not a prominent policy priority; the focus is on improving external flexibility.	Focus on increasing external flexibility, less attention to security. Weak social dialogue on the elements of flexicurity.
Cyprus	Strong labour market (low unemployment rate, easy access to unskilled foreign workers).	Opposed to flexible forms of employment (lead to poor quality jobs, threaten collective bargaining process).	More flexible forms of employment.	Not a policy priority for the government.	Not very intense.	Presence of foreign workers and large numbers of self-employed counterbalances the inflexible public sector and wage setting mechanisms.



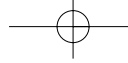


TABLE 1 (CONT.) → OVERVIEW OF THE NATIONAL DEBATES ON FLEXICURITY — SUMMARISED FROM THE SYSDERM EXPERTS' NATIONAL REPORTS ON FLEXICURITY (EEO, 2006)

Country	Challenges and drivers of the debate	Key positions of the main stakeholders			Prominence of flexicurity debate	Other observations
		Trade unions	Employers and employer organisations	Government and other stakeholders		
<b>Latvia</b>	Strong economic growth, rigid labour legislation (especially hiring and firing).	Unions weak.	More relaxation of hiring and firing, more flexible work arrangements.	Mission to protect workers rights assumed by the Welfare Ministry.	A new concept, rarely used, but its elements are debated and mentioned in key policy documents.	Inter-ministerial cooperation is difficult and hinders discussion over the business environment and labour market.
<b>Lithuania</b>	Rapid economic growth and shortage of labour force; until 2005, inflexible and insecure labour market.	No common position and agreement between social partners on the principles of flexicurity. Employers want to liberalise further labour legislation and to increase the quality of vocational training. Trade unions view increasing flexibility as granting privileges to employers.			The term is not used, but current reforms encompass elements of flexicurity.	High-quality and effective lifelong learning is the biggest challenge.
<b>Luxembourg</b>	Maintain long-term economic competitiveness.	Social dialogue is strong. Discussions and decisions take place on a regular basis, including on certain elements of flexicurity.			The concept is rarely used in public debate, but certain elements of flexicurity are discussed.	
<b>Hungary</b>	Highly polarised political system, hard to reach consensus. Efforts to reduce budget deficit, recently increased unemployment rate, low participation rate, especially among low-skilled workers.	Main efforts focus on annual tripartite wage setting (unions, employers, the government).		Recently reorganised the unemployment insurance system, and created stronger incentives for job seeking. Efforts through ALMP to increase participation of disadvantaged groups.	The concept is not prominent in public debate, and it is little used. Public debate is mostly focused on the education system.	The government should place more emphasis on education.
<b>Malta</b>	Increase economic prosperity, reduce high unemployment rate.	Emphasis on employability of workforce; cautious acceptance of flexicurity concept.	General elements are widely accepted, especially flexibility and capacity to train the labour force.	PES helps people in job transition and provision of training.	Not high profile but a debate currently exists and many stakeholders express support.	Adverse culture in workplaces (us vs. them, workers vs. employers) is a key challenge.
<b>Netherlands</b>	Early adopter of labour market flexibility, focus is on the need for and limits of labour market flexibilisation.	Social dialogue is highly developed, but stakeholders disagree on key flexicurity elements, especially the regulation of dismissals and the level of protection for workers, particularly from vulnerable groups. Trade unions consider the government went too far in economic flexibilisation and privatisation.			Quite prominent (in the press, and election campaign); considerable interest in the Danish model.	Policies have favoured flexibility at the expense of security. Many people lost their benefits, but are unable to (re)enter the job market.
<b>Austria</b>	Polarised debate due to opposing positions of political parties and social partners.	More job security when combining work with childcare responsibilities or taking training leave.	More internal flexibility for enterprises, especially in regulating working time and overtime pay.		Influential: playing a key role in the latest election campaign.	General consensus exists on the need to maintain high level of wage flexibility and raise employability security.

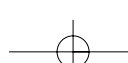
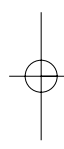
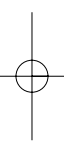


TABLE 1 (CONT.) → OVERVIEW OF THE NATIONAL DEBATES ON FLEXICURITY — SUMMARISED FROM THE SYSDERM EXPERTS' NATIONAL REPORTS ON FLEXICURITY (EEO, 2006)

Country	Challenges and drivers of the debate	Key positions of the main stakeholders			Prominence of flexicurity debate	Other observations
		Trade unions	Employers and employer organisations	Government and other stakeholders		
<b>Poland</b>	Continuous labour market segmentation and low vocational activity in the labour force.	Sceptical, highlighting decreasing social security and questioning possible improvements in job availability and opportunities for excluded groups. Concentrate on maintaining or extending social benefits.	In favour and highlight the advantages such as lower labour costs, increased competitiveness, greater adaptability.	The concept is researched and debated in the academic community.	Not a priority issue.	A view that Poland should create its own version of flexicurity. Social partners do not play a significant role in developing flexicurity.
<b>Portugal</b>	Economic stagnation, growing unemployment, particularly long-term unemployment. Increasing labour market segmentation. Commission's pressure to address flexicurity is a key factor.	Very sceptical about the Danish model of flexicurity, fearing total freedom to fire.	More flexibility in hiring and firing to foster job creation.	Government is supportive of flexicurity, but only with adjustments to the Portuguese situation.	Largely unknown concept, not a prominent policy priority, but growing interest and elements appear in key policies. Recent visibility of the flexicurity issue in the media contributed greatly to raising awareness of the concept in civil society.	The main issue is the flexibility of work contracts.
<b>Romania</b> (Joined the EU 1.1.2007)	Largely influenced by EU accession process.	Social partners have gradually increased their involvement in negotiating the elements of flexicurity, especially over the setting of the minimum wage.		Government is the driving force behind the flexibility reforms.	The debate is in its infancy.	Recent reforms aimed at increasing flexibility, easing hiring and firing and more flexible work arrangements.
<b>Slovenia</b>	Sub-optimal level of competitiveness, low labour market flexibility.	Prioritise social security aspects; avoid the burden of reforms falling on workers alone.	Liberalise economy and labour market, especially more freedom to hire and fire workers.	Government inconsistent on the nature and direction of reforms.	Frequently mentioned in key policy documents and political debate; defined and understood differently.	Lack of consensus about the basic principles of flexicurity and direction of reforms necessary.
<b>Slovakia</b>	Favourable conditions for economic growth, improving employment rates.	Raise social benefits, tighten current flexible employment regulations, increase employee protection.	Maintain the current labour law.	Political parties' positions are polarised. Academic community is mostly for higher flexibility and reassessment of ALMP.	Debate on the balance between flexibility and security is present, although the concept itself is not mentioned. Individual components receive intense attention.	Recent reforms have been to increase flexibility and improve business environment.

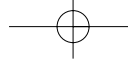
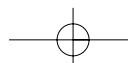


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Country	Challenges and drivers of the debate	Key positions of the main stakeholders			Prominence of flexicurity debate	Other observations
		Trade unions	Employers and employer organisations	Government and other stakeholders		
<b>Finland</b>	Working life and tax and social policy reforms are made by government in close collaboration with social partners.	Unions want to increase employment and job security and restrict the use of fixed-term employment contracts.	Employers' associations prefer greater wage flexibility, seek to increase the fines for illegal strikes' fines and liberalise dismissal regulations.	Government role is to avoid strikes by regulating labour market conflicts. Government operates with tax and social policy parameters so that labour market parties can agree more employment flexibility and employment security.	The outcome of increasing labour flexibility and employment security (change security) has been comparatively modest.	Danish and Dutch flexicurity models are not very well suited to Finland. Firm structure in Finland is concentrated in a few big companies and employment is dispersed within small labour regions.
<b>Sweden</b>	Powerful social partners, strong contractual tradition.	Negotiated compromises aimed at balancing flexibility and security in the labour market.			Flexicurity is a central component of the Swedish labour market.	Labour legislation is optional, i.e. can be amended by collective agreements.
<b>United Kingdom</b>	Long tradition of flexible lightly regulated labour market and minimum safety net.	Equal opportunities for employees on flexible contracts; more investment in human capital.	Maintain low-cost business environment, against any increases in labour cost.	Flexicurity elements implemented through government policy and legislation rather than collective agreements.	The term is rarely heard, but many of its elements are frequently debated.	Current labour market policy encompasses the basic tenets of flexicurity.  No national framework for collective bargaining, esp. in the private sector, where union coverage is low.
<b>Croatia (candidate country)</b>	Profound economic and social changes (post-communist transition).	Against increasing flexibility and cuts in social spending, especially against easier firing of workers.	Against rigidity of work organisation, high labour costs, low labour flexibility, especially in hiring and firing.	Foreign and international organisations backed the increase of labour flexibility.	Prominent during 2001-03 and culminated in a new Labour Code aimed at increasing labour market flexibility.	Fragmentation and weakening position of trade unions is undermining social dialogue structures.
<b>Turkey (candidate country)</b>	Labour market segmentation and large informal sector.	Highlighting the security element.	Highlighting the flexibility element.	Women's organisations keen on flexicurity to address the problem of female unemployment.	Started recently, the term is beginning to appear in official documents and press.	Low trade union membership; but nonetheless strong tradition of social dialogue.
<b>Norway (EEA country)</b>	Growing and competitive economy, sufficiently flexible labour market.	Against liberalisation, especially of temporary employment.			Liberalisation of labour law is a hot issue.	Social dialogue strong, labour regulations can be changed by collective agreements.

The full national articles from each SYSDM expert can be accessed on the EEO website: [www.eu-employment-observatory.net/](http://www.eu-employment-observatory.net/)



### 3. GOVERNANCE

As key actors on the labour market, the role of the social partners is critical in the design and implementation of successful flexicurity approaches at national, regional and enterprise level. This role could be considered to encapsulate three essential functions, the balance and importance of which will differ from country to country depending on the history and tradition of industrial relations and policymaking.

The first role relates to the social partner's influence on policy design and legislation through formal or informal tripartite consultation and concertation. This also includes the role of employer and trade union organisations in the management of pension and social security systems as well as on training bodies. The second relates to their very particular role in shaping the labour market through autonomous collective bargaining. This can take place at different levels (national, regional, local; cross-sectoral, sectoral or enterprise level) and can relate either purely to the setting of wages and terms and conditions or can extend to the wider regulation of the labour market either entirely by collective agreement or as a way of enhancing or derogating from existing baseline legislation. Finally, social partner organisations play an important role in the implementation of flexicurity policies, for example through their participation in various ALMP or through the stimulation or provision of ongoing vocational education and training.

As a result of the different historical development of industrial relations, social dialogue and policymaking structures in different countries and against the background of varying socio-economic baseline positions, the involvement and the positions taken by social partner organisations in the flexicurity debate vary from country to country.

Three basic models can be distinguished in this respect, bearing in mind that within this general characterisation significant variations remain. To reflect the way in which labour market policy intervention is mediated between the respective actors, these models will be referred to as the 'corporatist' model, the 'consultative' model and the model of 'State-controlled tripartism'.

In the first 'corporatist' model of social partner involvement, employer and trade union organisations play a pivotal part in shaping the balance between flexibility and security in the labour market and the particular balance struck tends to enjoy a significant level of acceptance. Often, this negotiated flexibility is seen as a cornerstone of the country's success in managing its labour market. This model is largely the

result of a historical tradition of tripartite consultation and concertation and strong social partner organisations able to commit their members to the implementation of centrally agreed principles. This can be done either through national regulation or legislation or through collective agreement. It is by no means the case that such consultations and negotiations are always consensual, but the compromise achieved through negotiation is one generally supported by the key stakeholders. The balance between flexibility and security struck in these systems varies from country to country and tends to be adapted to the country's particular socio-economic position and the adaptations seen to be needed to boost the country's competitive position. It is interesting that countries using this approach tend to be among the most successful economies in the EU. Good examples of this approach to policymaking are the Nordic countries as well as Ireland. The difference between the former and the latter is that Sweden, Denmark, Norway and Finland tend to rely heavily on the implementation of flexicurity arrangements through collective bargaining, whereas in Ireland rebalancing is more likely to occur through national legislation and significant flexibility for collective bargaining at the local level.

'The Danish model of flexicurity itself is the outcome of a long historical process involving a series of negotiations and compromises between the social partners, the evolution of the welfare state and — in recent years — a gradual development of a more active profile of the labour market.' 'Therefore both social partners and the government have played a crucial role in the historical development that has led to the present state of affairs on the Danish labour market'<sup>(3)</sup>.

'The Swedish model is characterised by the crucial role played by the social partners in mechanisms for regulating the labour market. Swedish labour legislation is restricted by comparison with labour legislation in other Member States ... this distinct feature coupled with high union density gives rise to considerable leeway for the emergence of "negotiated flexibility" at the local level and makes it possible to better adapt the regulatory framework (statutory law) to firms' productive constraints and workers' preferences regarding working conditions'<sup>(4)</sup>.

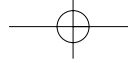
'The role of the social partners and other labour market stakeholders in the development of "flexicurity" policy approaches (in Ireland) has ... been extremely important, with a formal input into policy development by these actors facilitated by the national partnership process. This brings the key stakeholders together to agree a framework outlining a series of commitments over forthcoming years'<sup>(5)</sup>.

(3) Per Kongshøj Madsen, Contribution to EEO Autumn Review 2006 'Flexicurity'.

(4) Dominique Anxo, Contribution to EEO Autumn Review 2006 'Flexicurity'.

(5) Andrew Brownlee, Contribution to EEO Autumn Review 2006 'Flexicurity'.





The second 'consultative' model is also characterised by a tradition of dialogue between social partners and the government. This exchange is more or less formalised through tripartite fora or other established channels for consultation but falls short of the 'corporatist' model as it does not rely on negotiated compromise between the government and the social partners but tends to focus on legislation and policy action drafted by the government taking into account the remarks of the parties consulted to varying degrees. Another characteristic of this — the most widespread, but equally diverse — model is often the lack of mutual buy-in to the balance achieved between flexibility and security. This tends to result in a well-rehearsed dichotomy of views between social partner organisations to any proposals for shifting the balance between flexibility and security, with employers favouring a dismantling of labour market regulation, while trade unions generally perceive an ongoing erosion of employee rights.

At one end of the spectrum of this model are countries like Austria, Belgium or the Netherlands, which still have a relatively strong tradition of tripartite concertation and where some changes in the balance of flexibility and security are consensual. They nevertheless fall short of the Nordic model, with consultation being an important part of policymaking, but where final decisions are largely implemented unilaterally by government. The latter is often as a result of the inability of social partner organisations to agree on a common line or the lack of capacity to require all member organisations to adhere to agreements made centrally. At the other end of the spectrum are countries such as Greece, where the involvement of social partner organisations in the debate on flexicurity is more recent and has not yet reached maturity. In Austria, as well as in other countries loosely falling within this model (e.g. France, Germany, the Netherlands and Portugal), widespread agreement can be achieved between the social partners and the government on the need for reform in the education and training systems and in relation to placing greater emphasis on effective ALMP, but it is much more difficult to change the balance between flexibility and security in labour legislation. Unsurprisingly, while employer organisations in most of these countries argue in favour of greater flexibility — particularly in decisions to hire and fire, trade unions tend to argue that the pendulum has already swung too far in favour of employers and greater protection is needed, particularly for employees on non-standard contracts to avoid the emergence of a two-tier labour market. Having said that, it is also acknowledged that in some countries trade unions in their traditional role of supporting the interests of wage earners have contributed to

the perpetuation of the exclusion of certain disadvantaged groups from the labour market.

An interesting case within the spectrum of this model is Germany, where there is a general emphasis by all parties on maintaining the relatively strong protection of standard employment relationships while creating greater internal flexibility through better vocational education and training. At the same time, economic realities have necessitated a more pragmatic social partner approach involving opening clauses to collective agreements through company-level employment pacts aimed at preserving jobs and boosting competitiveness through greater flexibility at workplace level.

'This tripartite approach (to policymaking in Austria) has its weaknesses and strengths. Among the weaknesses, a tendency to preserve established institutional set-ups of power stands out. Among the strengths, it is the balance between flexibility (demanded by the employer side) and security (asked for by the labour unions) that results (in) consensual reform. The Austrian governance approach is at its best, when the stimulus for reform comes from "external" sources like the European Union. European initiatives have played an important part in many of the flexicurity policies (implemented) over the past 10 years. This is the case in particular for active labour market policies'<sup>(6)</sup>.

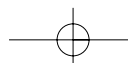
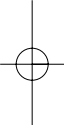
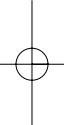
'Although Greece has no tradition (of) flexicurity-related dialogue procedures and more generally in public debates on economic and social issues, recent developments in this field are certainly encouraging. The government has initiated public dialogues on education and social security reforms and has invited the social partners to discuss measures to curb the high unemployment rate in the Employment Committee. The latter is a tripartite body, established with the aim (of providing) a focus for discussions between the State and the social partners. Any future policy shifts in line with flexicurity are likely to originate from this committee'<sup>(7)</sup>.

'Employers and unions can play a role in policymaking in the areas associated with flexicurity as part of the regular political and consultative processes in the UK. However, these processes are significantly less institutionalised than in other EU countries ... baseline provisions regarding flexicurity are implemented through national legislation and government policy, rather than collective agreements, as there is no national framework for collective bargaining, particularly in the private sector'<sup>(8)</sup>.

(6) Ursula Lehner, Paul Timar, Michael Wagner Pinter, Contribution to EEO Autumn Review 2006 'Flexicurity'.

(7) Dimitris Karantinos, Contribution to EEO Autumn Review 2006 'Flexicurity'.

(8) Eleanor Breen, Contribution to EEO Autumn Review 2006 'Flexicurity'.



The third model of 'State-controlled tripartism' is one largely peculiar to the new Member States in central and eastern Europe and has its roots in the historical development and resulting comparative weakness of social partner organisations. As a result of the relative weakness of the social partner organisations in these countries, dialogue mostly takes place at tripartite level under the auspices of tripartite bodies set up and controlled by the government. This means that, although social partner organisations in these countries are by and large actively involved in the flexicurity debate, for example in relation to shaping the provisions of labour codes and active labour market and vocational training policy, this form of tripartite exchange cannot yet be compared with that taking place in many of the countries of the EU-15 because of the relative dominance of the government which retains the final say in these exchanges (with some notable exceptions). It is also influenced by the inability of many of the social partner organisations to implement measures agreed at this level through national sectoral or cross-sectoral collective bargaining.

The membership base of both employer and trade union organisations in many of these countries remains weak and in the case of trade union organisations has diminished significantly in recent years. Having said that, it is important to note that, in many of the EU-12, the impetus for social dialogue has, to a not insignificant degree, sprung from the emphasis placed on the importance of these processes by the European Commission in its accession negotiations. Support has been and continues to be made available to bolster the development of active social dialogue organisations and structures in these countries and efforts are beginning to bear fruit with the increasingly active involvement of social partner organisations in tripartite bodies and the emergence of autonomous collective bargaining structures to back up the shaping and implementation of flexicurity policies.

Recent developments in Romania must be seen as a notable exception to the prevailing State-controlled model of tripartism. Social partner organisations in Romania are beginning to overcome their original weakness and are represented on the Social and Economic Council, but also on the tripartite Agency for Employment, the National Pension House and the National Adult Training Board. The origins of the flexicurity debate with the social partners can be traced back to negotiations on the new Labour Code in 2003. These negotiations were able to gain significant guarantees on job security, which prompted employers' organisations to call the document a 'union charter'. Following the change of govern-

ment in 2004, the Labour Code was again revised. Tripartite discussions on this were protracted and only reached conclusion when the government withdrew from the negotiations in 2005, leaving the social partners to reach a negotiated settlement. The same procedure was again used to achieve revisions in the labour code in 2006, giving significant power to the social partner organisations to formulate the agenda.

'Social partners in Estonia are weak and the coverage of collective agreements is low. The main topic in tripartite negotiations has been (the) minimum wage, which is a rule-making process and is binding to all employers. In addition, several aspects of flexicurity such as tax exemptions, unemployment benefits, active labour market policies, employment protection legislation and social security have been discussed in the negotiations. However, the latter has been more a consultation process in which the government retains the power of unilateral decision-making. In addition to the tripartite negotiations, consultation of the draft legal acts is also taking place continuously<sup>(9)</sup>.

'The basis of social partnership (in Poland) is the creation of ... (the) Trilateral Commission for Socio-Economic Affairs ... quadrilateral social dialogue commissions (at district level) ... trilateral industrial teams ...; bilateral dialogue institutions (and the) Commission for Collective Labour Agreements ... However, social partners and other labour market stakeholders do not play a significant role in the development of flexicurity ... because both trade unions and employers' organisations have difficulties in the formulation of one opinion ...'<sup>(10)</sup>.

'The success in Romania of this kind of approach that encourages social partners to take the decision-making process into their own hands has been replicated during the last two rounds of negotiations for the setting of the statutory minimum wage. Although the government still retains its right to settle a guaranteed minimum at the beginning of each year by government decree, it is actually the social partners, which subsequently, during negotiations for the national collective labour agreement, set the effective minimum wage. This minimum wage level is applied then throughout the economy with the sole exception of the public administration that sticks to the level decreed by government, at least in general. It is important to emphasise that salaries, and especially the level of the minimum wage (centre-piece to collective labour agreements), will be at the heart of social partner negotiations in terms of ensuring the best possible balance between flexibility and security'<sup>(11)</sup>.

(9) Reelika Leetma, Contribution to EEO Autumn Review 2006 'Flexicurity'.

(10) Elzbieta Krynska, Contribution to EEO Autumn Review 2006 'Flexicurity'.

(11) Catalin Ghinarau, Contribution to EEO Autumn Review 2006 'Flexicurity'.

In the same way as EU accession and European funding has played an important role in the development of social dialogue in the EU-12, the availability of European funding is beginning to shape policymaking, particularly with regard to the emergence of more innovative and active labour market policy measures and the review and improvement of vocational education and training systems.

## 4. BALANCING LABOUR MARKET FLEXIBILITY AND SECURITY

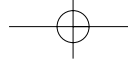
This section of the EEO Review summarises information (Table 2 below) under each of the four key elements of flexicurity:

1. labour law;
2. active labour market policies (ALMP);
3. lifelong learning systems (LLL);
4. social security systems.

The table also summarises in the final column indicative labour market policy areas for reform and/or areas requiring further attention and development in order to establish better conditions for flexicurity.

This information is drawn from the System experts' national reports and readers should refer to the articles in order to access the rich sources of evidence, interpretation and argument.

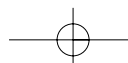
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**TABLE 2 → BALANCING LABOUR MARKET FLEXIBILITY AND SECURITY — SUMMARIES OF SYSDERM EXPERTS' NATIONAL REPORTS ON FLEXICURITY (EEO, 2006)**

The full national articles from each Sysdem expert can be accessed on the EEO website: [www.eu-employment-observatory.net/](http://www.eu-employment-observatory.net/)

Country	Labour law	Active labour market policies (ALMP)	Lifelong learning systems	Social security systems	Priorities for reform and/or areas requiring further attention and development
<b>Belgium</b>	In Belgian law the permanent contract is still the standard and temporary work is strictly regulated. However, temporary employment is often used as an entry channel into the labour market for young people; temporary employment rules are also by-passed in the regulation relating to service vouchers that has been successful in creating jobs and combating undeclared work; the very limited terms of notice for blue-collar workers means that the level of employment protection for permanent workers against individual dismissal is relatively low; and the typical Belgian system of temporary unemployment serves, for blue-collar workers, as a functional equivalent for the application of temporary contracts and agency work. A time-credit system supports work/life balance.	Belgium has strongly reinforced ALMP including: new monitoring systems for the unemployed; intensive guidance by regional employment services together with periodic checks by national PES; every jobseeker must be provided within a reasonable time with a suitable job or training offer aimed at sustainable employment. The Generation Pact also tackles (re)-integration into the labour market arising from restructuring.	Lifelong learning policies in Belgium have concentrated in particular on investments in formal education in order to reduce barriers to learning, such as training vouchers and competence centres. Training Agenda 2010 is a promising instrument but so far it is not clear how the objectives will be met in time and how vulnerable groups in the labour market are going to be reached. Progress was made in the field of the formal recognition of skills — a key stage in the further development of competences. Career counselling agencies provide further career development advice.	In the last 25 years, the ceiling for the calculation of replacement benefits, apart from pensions, remained far behind the evolution of wages. The Generation Pact includes a statutory mechanism linking the trend in social benefits to prosperity. Furthermore social partners recommended measures aimed at improving the minimal income protection. Government increased the level of social protection in the case of the self-employed. Government has created instruments to combat unemployment traps including the work bonus which boosts purchasing power for low-wage earners, while the allowance for resuming work offers a supplement to the normal wage for older unemployed people who accept a job. These measures are responsible for a significant reduction in the risks of financial unemployment traps.	Although the legal recognition of using temporary employment as an entry channel for young people has reached the policy agenda, it is still waiting to be addressed. Periods of temporary unemployment (typical of the Belgian system) are not used for training staff and improving employee qualifications. Part-time work is little recognised by policy (with the exception of time credit). The transition to part-time work can hold the risk of financial traps and negative impacts on 'career building'. Employment opportunities for migrants, older and unskilled people are still very low in Belgium. How to increase participation in training is possibly the main policy challenge in achieving flexibility. Social partners are being counted on in the context of the Inter-professional Agreement 2007/08 to boost training initiatives. Some specific financial traps continue to exist particularly for single parents who try to make the transition from unemployment to part-time or low-wage jobs. These circumstances deserve special policy attention.
<b>Bulgaria (joined the EU 1.1.2007)</b>	Reforms to Bulgarian labour and social laws include clauses on balancing employment flexibility and security. The period of service could be calculated in	PES and private recruitment agencies should continue the focus on individualisation and improvement of the quality of brokering services. Orientation	The Bulgarian vocational training and lifelong learning system is a weak element in terms of current flexibility arrangements. The participation of	Social protection of the unemployed and economically inactive people of working age in Bulgaria is organised in traditional ways. It provides unemploy-	Priority has to be given to the development of LLL policies and the restructuring of ALMP. In particular micro and small enterprise need preferential regimes



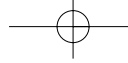


TABLE 2 (CONT.) → BALANCING LABOUR MARKET FLEXIBILITY AND SECURITY — SUMMARIES OF SYSDERM EXPERTS' NATIONAL REPORTS ON FLEXICURITY (EEO, 2006)

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	<p>days, months, years and also in hours. The incomes received after extra hours worked are subject of insurance contributions. The period of service could be calculated in days, months, years and also in hours. The Labour Code introduced equal rights and obligations for employees hired under fixed-term employment contracts with those holding permanent contracts. The LC also increased the role of collective agreements and permanent consultation. Some changes have also strengthened employers' independence and encouraged their role as a party to the employment relationship. What is now required is extensive work on the application of the updated laws and also their further development.</p>	<p>should be to support the transition of people from education to employment; of people in work from one job to another; as well as helping unemployed people to find a job. The development of agencies for part-time employment should also be encouraged.</p>	<p>employers in activities related to the development of training programmes, evaluation of training results and training-needs assessments is still episodic. The finalisation of a complete set of state educational requirements for acquiring qualifications by professions is behind schedule. The work on a system to validate informally acquired knowledge and skills has still not been completed.</p>	<p>ment benefit and social assistance payments for those below the guaranteed minimum income level. Social protection is subordinate to the requirement to engage the unemployed/inactive (of working age and good health) in seeking work, including atypical employment. The period for receiving unemployment benefit is relatively short and the level of compensation is low. The period of assisting unemployed people of working age without permanent disability is limited to a maximum of 18 months.</p>	<p>that stimulate the use of flexible employment. Low qualified people require well coordinated protection, knowledge and skills for the development of their transitional flexibility and to support their participation in the workforce. Risks need to be shared between employers and the employed. There is a need to: assure protection of those employers who invest in personnel development; introduce socially-acceptable methods for the regulation of the number of employed and the scale of labour costs; develop flexible job descriptions; introduce clauses in labour contracts that allow work under well-protected flexible working hours and in different places. Regulations should not allow transition of the major part of the risk to the employed, nor an increase in stress at work, nor tensions between work and family life.</p>
<b>Czech Republic</b>	<p>In the EU-wide context, employment protection legislation is relatively low. However, there is a large discrepancy between permanent (highly protected) and temporary contracts (far less strictly regulated). Potential risk of labour market segmentation has not materialised yet, as temporary work is not widespread. Dismissal costs are at an intermediate level in international comparison EU-wide, but do not decline with shorter tenures. This is a powerful impediment to hiring new workers. The majority of jobs are protected by costly dismissal procedures.</p>	<p>The scale and scope of ALMP is low and not integrated with activation strategies. ALMP provide little improvement in the employability of the unemployed. Little is known about the effectiveness of existing ALMP. This is being recognised by policymakers. The availability of EU funds has initiated a number of new ALMP-related programmes.</p>	<p>Participation in lifelong learning is low and decreases with the level of education. The participation of the unemployed is at very low levels. Alarmingly, tertiary education completion rates are also very low. Limited retraining services are offered. Existing school network provides limited lifelong learning opportunities and the welfare system has few activation incentives. Potential of secondary schools to provide lifelong learning (due to the shrinking cohort of schoolchildren) has not been utilised. Lifelong learning system is in the early</p>	<p>Tax revenue is highly reliant on direct labour taxation and the tax wedge on labour is high, particularly for low-wage earners. This creates a powerful welfare trap leading to low incentives for long-term unemployed people to seek work. Positive changes include the reduction of personal income tax in the bottom two tax brackets and the introduction of child-related tax deductions. This is likely to support labour market participation of low wage workers. Statutory minimum wages have been repeatedly increased, but their impact is not</p>	<p>The challenge of a complicated and generous welfare system which provides very little activation pressure and activation support for the unemployed needs urgent attention. Integration of ALMP into activation strategies and rigorous evaluation of ALMP results is required. There should also be an agreement on how to use the excess capacity of the schooling system for expanding lifelong learning.</p>

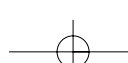
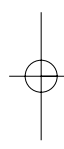
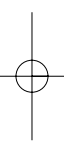


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	<p>The costs of hiring and firing are unusually high.</p> <p>The new Labour Code mainly codifies existing arrangements.</p> <p>Trade unions play a powerful role in ensuring strict employment protection.</p>		<p>stages of development.</p> <p>A law was recently adopted to facilitate the validation of skills acquired after initial education. Higher professional schools, providing specialised professional diplomas, have been established.</p>	<p>yet discernable.</p> <p>A cap on payroll contributions, a standard policy measure, is still missing.</p>	
<b>Denmark</b>	<p>A low level of EPL is a long-standing feature of the Danish labour market model. The regulation of individual employment protection is therefore largely left to the social partners, leading to differences in provision between sectors and occupational groups. There is, however, a basic legislative standard of protection from dismissal for salaried workers, based on seniority. Provisions for public sector employers are generally the same as for private sector workers with the exception of a small number of civil servants.</p>	<p>The Danish model is characterised by a high level of investment in ALMP. Recent reforms to this system are described in the final column.</p>	<p>Education policy plays an important role in the functioning of the Danish flexicurity model. Social partners are highly involved and institutionally committed, in particular in relation to continuous vocational training policies. This system provides training both for the employed and for the unemployed and albeit formally under the control of the Ministry of Education, it is largely administered by the social partners.</p> <p>From the late 1980s, collective agreements included provisions on education, usually entitling employees to two weeks leave per year to participate in job-related education. Such adult vocational education and training is largely funded by the government rather than employers, contributing to a high rate of take-up.</p>	<p>Unemployment insurance is administered by a number of State-recognised unemployment insurance funds, which are largely organised along occupational lines and many of which are affiliated with trade unions. Financing is on the basis of employer and employee contributions as well as public funding. The share of public funding depends on the level of unemployment (and rises when unemployment increases). Those who are not eligible for unemployment benefit rely on means tested social assistance. The interplay between social security, labour legislation and lifelong learning systems is characterised by a configuration of a flexible labour market with high levels of numerical flexibility, low levels of EPL, a relatively generous system of support for the unemployed and ALMP and LLL policies aimed at upgrading the skills of those in work as well as the unemployed to enable a swift return to the labour market.</p>	<p>In 2006 and 2007 the so called 'structural reform' will have a major impact on the organisation of Danish labour market policy. Currently, 14 labour market regions will be replaced by five labour market regions. These will still have a tripartite council, for with fewer powers than in this past, thus strengthening the role of local authorities and reducing the influence of social partner organisations. New job centres will be created in each municipality, leading to a greater combination of the social assistance and PES functions. However, formal responsibility for the unemployed will remain divided between the State branch and the municipality branch of each job centre, thus creating a hybrid of the two-tier and one-tier system, which should nonetheless improve cooperation and efficiencies.</p> <p>Continuous vocational education and training and lifelong learning is one of the key issues in negotiations between the social partners in early 2007. The government has promised to financially support a reform of the CVT system if the social partners can agree on a reform further boosting CVT, which will also imply increased financing from employees and employers.</p>

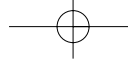


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<b>Germany</b>	<p>German labour law provisions have traditionally been based on the standard employment relationship with an emphasis on supporting productivity increases through investment in those already in open-ended employment. The result was a strong segmentation between 'insiders and outsiders'. Faced with high levels of unemployment, greater flexibility was introduced through the Job Promotion Act in 1985, which lifted some of the restrictions on the use of fixed-term contracts, reformed redundancy regulations to exempt small businesses and liberalised agency work. The mini-jobs regulation of 2002 further served to open up the labour market to less standard employment relationships. In a labour market widely regulated via collective agreements, there has been increasing pressure to accommodate fluctuations in demand through so-called 'opening clauses' in collective agreements, allowing for time limited deviations to general agreements. These are increasingly used to safeguard jobs and locations, for example through greater flexibility in wages and working hours.</p>	<p>The Hartz reform seeks to make use of the well developed temporary agency work sector by introducing personnel service agencies to place unemployed workers. Labour conditions for agency workers are generally regulated by collective agreements for agency work, with workers holding time-limited contracts with the agency, which is responsible for paying their salary, taxes and social contributions. The number of temporary agency workers has increased, albeit with significant seasonal fluctuation. Research points to positive employment effects of agency work.</p>	<p>Investment in the workforce is an important part of the model of 'internal flexibility' and the improvement of productivity, which the German labour market model is based upon.</p>	<p>The Social Code allows for the payment of short-term work benefits to companies facing temporary production shortfalls. Based on a number of conditions, this allows workers to receive 60 % of their net wage for lost working hours for a period of six months. This instrument has helped to alleviate the effects of many cyclical crises and was also widely used immediately following reunification. However, more recently, the long-term stagnation of labour demand and the higher cost imposed on employers using short-term working have meant that this instrument has become less valuable in combating slumps in labour demand. Another tool amalgamating the use of social benefits with active labour market measures is that of 'transfer short-term work' and the 'transfer companies'. Devised to manage economic change and labour market transitions, it provides for the payment of transfer benefits and measures which require workers affected by redundancies to be brought together in a 'transfer company'. This arrangement guarantees incomes for a limited time and provides assessment and outplacement services to affected workers.</p>	<p>Reforms are being proposed to redundancy regulations, to reduce costs for employers. A proposal by the Federal Minister for Economics and Technology seeks to combine both labour market flexibility and the increase of unemployment benefit.</p>
<b>Estonia</b>	<p>Compared to the EU-15, employment protection legislation is rather strict. However, relatively strict legislation is counterbalanced by its poor enforcement. While the use of regular contracts is much more restrictive, temporary contracts are</p>	<p>Expenditure has increased from very low levels, largely due to the ESF monies. Considerable effort is made to develop ALMP, especially targeting disadvantaged groups. An individual approach and case management system was introduced. Tighter sanc-</p>	<p>Participation in training is low and declining. Lifelong learning is not covering the most vulnerable groups. Systems for financing adult learning are missing. Also, firms effectively face a tax on training costs. The recent adoption of a lifelong learning</p>	<p>The introduction of the unemployment insurance system in 2002 significantly increased the income security of the unemployed. However, the security is very different and depends on the type of benefit received. The unemployed receiving both unemployment</p>	<p>Promotion of more flexible work forms including temporary agency work is an important challenge. Links, qualification and activation criteria between different systems (foremost unemployment insurance, unemployment assistance and social assis-</p>

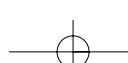
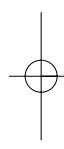
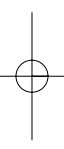


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	<p>much less restrictive. However, the share of workers in non-standard employment is low and often involuntary. The debate on the new law of employment contracts has been ongoing for several years.</p>	<p>tions were introduced for those unable to comply with job search requirements and participation in ALMP measures. No monitoring and evaluation system is in place.</p>	<p>strategy could address some of these problems.</p>	<p>insurance benefits and severance benefits are well protected (but they are in a minority), while those on unemployment assistance are forced to apply for social assistance to reach subsistence level.</p>	<p>tance but also sickness and family benefits as well as severance payments) should be reviewed to ensure that these systems support active participation in the labour market and provide adequate security. Increased ALMP expenditure should be combined with the improved design and effectiveness, for which an adequate evaluation and monitoring system is required. Establishing a financing scheme for adult training and abolishment of a tax on training costs should increase participation in lifelong learning.</p>
<b>Ireland</b>	<p>Ireland has a comprehensive body of employment rights legislation, protects employees against arbitrary behaviour by employers, provides for the health and safety of workers and fosters labour market harmony by promoting policies that minimise conflict and maximise fairness. The protections afforded to workers have been reviewed to ensure that they are sufficient and relevant in the new environment. Recently, attention was focused on introducing changes to promote modernisation and flexibility in public sector employment — a large enough sector to have an impact on the wider labour market. Without the inflow of migrants, Irish economic growth would have been restricted. Initial access to migrants from Romania and Bulgaria will be more restricted.</p>	<p>The social partnership agreement 'Towards 2016' will take account of competitiveness and employment. Elements include addressing employee advancement, job security, equal opportunities, training, productivity, flexibility and good working conditions. The government will establish a three-year Workplace Innovation Fund to enable the partners in the agreement and the National Centre for Partnership and Performance (NCCP) to build a stronger commitment to innovation by encouraging the development of new ways of working through partnership, aimed at increasing flexibility and improving performance.</p>	<p>New policy commitments have been made: increasing participation in lifelong learning among the low-skilled/low paid; helping adults from disadvantaged communities, including rural areas, to acquire basic literacy, numeracy and IT skills and tackling barriers/disincentives to lifelong learning; additional support for students from disadvantaged backgrounds, students with disabilities and mature students to enhance access to further and higher education; targeted support for employees participating in part-time courses at third level; a national skills strategy which will put in place a strategic framework for the implementation of skills and training strategies for the medium term; review the curricula, assessment process and delivery mechanisms for apprenticeships; prioritise adult literacy in adult education especially English language for migrants; guidance/counselling will be provided to literacy and language learners and the needs of migrants will be considered.</p>	<p>Ireland has a well-developed system of redundancy payments and social welfare payments that provide income support for workers who lose their jobs. The lowest level of social welfare payment for an unemployed person has been increased to EUR 185 per week or 30 % of the gross average industrial wage. A system of portable pensions has also been introduced; however, the take-up has been disappointing.</p>	<p>While the term 'flexicurity' is not used in Ireland, its key elements are being addressed through the partnership agreements. These agreements are implemented through legislation, institutional actions, government financial allocations and good industrial relations practices at plant and national levels. Combining flexibility with security through the medium of partnership has contributed to the success of the Irish economy. The success of partnership as a means of delivering economic development is one of the key messages from the Irish experience. Progress is now needed with respect to making the workforce more adaptable via lifelong learning approaches, with the private sector in particular yet to be fully engaged in facilitating access to lifelong learning systems for their employees.</p>



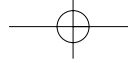


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Greece	<p>EPL is at relatively high levels in Greece compared to other EU countries. The share of temporary employed under fixed term contracts in total employment does not markedly differ to other Member States. But the share of part-time working in Greece is among the lowest in the EU. Wage flexibility is limited in Greece as the ratio of entry minimum wage to average blue-collar earnings in manufacturing is high (around 60 %). Social security contributions also remain high compared to the EU average. Labour mobility, both geographical and occupational, is fairly limited in Greece. Various measures were introduced in Greece in recent years to combat labour market rigidities and raising employment levels.</p>	<p>Expenditure on ALMP is small in Greece compared to European standards in spite of the above-EU-average unemployment rate. ALMP efforts during recent years have focused on the creation of an adequate PES network. This network, comprising 119 PES, is near completion (November 2006). It was estimated that the whole of the target population would be covered by the end of 2006. This has brought about an impressive improvement in labour market activation measures.</p>	<p>Data on participation in LLL activities show Greece to have the weakest performance among all Member States. On educational attainment Greece also lags behind other Member States. Training for the employed is also at a low level. Key recent policy developments include the setting up of a special account (LAEK) in order to utilise part of the employer's contributions exclusively for training; formulation of an accreditation system for continuing training; establishing links between vocational education, training and employment; a new law regulating issues of LLL.</p>	<p>With respect to unemployment benefit provision, the net income replacement rate (first year) is not much different from the equivalent rates recorded for the other Member States. But estimates of NRR after five years indicate that these drop to negligible levels in Greece. The levels of unemployment benefits do not discourage job search in Greece. Moreover, the low wage or poverty trap is extremely low in Greece. Finally, the coverage of temporary workers with unemployment benefits is clearly the lowest recorded among the EU Member States for which comparable data exist. Large categories of the labour force (including the self-employed) and of the unemployed (especially new entrants to the labour market) are practically left without unemployment benefit coverage. In 2006, the government announced changes in the level of regular unemployment benefits. In all, unemployment benefits will increase by 30 % and in 2008 will correspond to 55 % of the minimum daily wage agreed by the national general collective agreement. From 2008 onwards, the level of the unemployment benefit will be indexed to take account of the pay increases agreed in collective agreements.</p>	<p>While recent policy initiatives in Greece have had a positive impact upon labour market outcomes, employment creation requires further reforms in order to address remaining imbalances and correct skills mismatch. Flexicurity is about protecting people rather than protecting jobs and the Greek nexus of services has been geared so far to protect the latter rather than the former. The lowering of the strict employment protection may hold gains for young people and women. But simply lowering employment protection while keeping conditions in other policy areas unaltered might in fact deteriorate labour market outcomes. The proper policy mix for Greece should also rely on adequate employment benefits, on well-targeted activation policies and on heavy investments in human capital.</p>
Spain	<p>With respect to external labour market flexibility, dismissal costs for permanent hiring remain among the highest in Europe and part-time work is not sufficiently developed. The use of temporary contracts in Spain is double that of the European average level and tends to concen-</p>	<p>The objectives of the PES in Spain (decentralised through autonomous committees) are to increase the rate of intermediation in job searches and to reduce search time. The latter is showing positive results. However, data show that the coverage and effectiveness of</p>	<p>A change in the methodology of measuring LLL participation to include unofficial training provides a much improved picture about Spain's LLL enrolment. Nevertheless, the quality and appropriateness of training in terms of the adaptability of workers should remain as a key</p>	<p>The fact that Spain remains far below in the expenditure on unemployment benefits per unemployed compared to most OECD countries, together with a very low ranking in the security perception index (OECD 2004) point at some margin of action to improve</p>	<p>Spain is in need of greater flexibility to cope with the temporary nature of contracts and segmentation in the labour market. Entrepreneurs will always find temporary work more attractive in terms of firing costs, but they may be disregarding the benefits of a more stable labour</p>

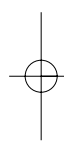
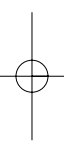


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	<p>trate on disadvantaged groups. The high rate of firing costs partly explains the high use of temporary contracts.</p> <p>With respect to internal labour market flexibility, social partner agreements have called for a better balance between flexibility and security in the context of a framework for adaptability on behalf of enterprises. However, in practice, temporary contracts have served as a substitute for these flexible clauses in collective agreements; judges have also shown a reluctance to apply the clauses.</p>	<p>ALMP measures is still low. Budgetary information available also reveals low expenditure on ALMP in comparison with top-spending countries. Recent developments include an agreement about professional training for employment. A global plan for the modernisation of the PES will receive a budget item of EUR 110 million.</p>	<p>policy target in the future. A benefits scheme has been in place since 2004, whereby enterprises obtain subsidies and credits to promote training programmes for workers.</p>	<p>workers' protection by means of a proper management and the quantitative improvement of unemployment benefits. A recent agreement about measures concerning social security issues signed in July 2006 has led to some simplification of the social security system. The unemployment subsidy has been the subject of a reform by means of the Royal Decree 2005/06 which, from February 2006, aims to simplify its management and make calculations and requirements more transparent.</p>	<p>force. The incentive scheme recently launched to foster open-ended contracts might constitute a crucial test for the temporary rates in the Spanish labour market. Other mechanisms also require attention such as collective bargaining on a more flexible distribution of working hours, more mobility of workers and more flexible wage setting. Improving flexicurity also calls for an intensification of the protection mechanisms and better coordination between ALMP and the provision of unemployment benefits.</p> <p>Undeclared economic activity is also a major challenge which concerns both the immigrant and host population. A step forward against undeclared work in the immigrant population was implemented in 2005 by means of the extraordinary normalisation process of about 500 000 immigrants.</p>
France	<p>France is characterised by relatively rigid EPL, which enterprises frequently bypass.</p> <p>France's rigid legislation also leads to strong market segmentation.</p> <p><b>Redundancy</b> procedures are complex and expensive, despite low levels of wage compensation for individuals and low levels of financial risk sharing. There are few incentives for employers to take account of the social costs of unemployment.</p> <p><b>Contracts:</b> Policies increasingly favour the use of atypical contracts of employment. These have created complex, insecure and segmented labour mar-</p>	<p>There are two main ALMP measures in France today: an existing measure around personalised retraining in the face of economic redundancies. The other, experimental, measure is the professional transition contract.</p> <p>The latter offers a one year period of 80 % wage compensation during which individuals can alter work and (re)training measures. France is also experimenting with leave entitlements for vulnerable professions. During nine months, an employee can take up temporary work contracts and/or engage in (re)training activities. The measure intro-</p>	<p>2004 brought in one of the country's most advantageous policies: the introduction of an 'individual right to training'.</p> <p>This right is at the individual's initiative; it gives individuals the right to 20 hours of training a year, which he/she can accumulate over six years. Unless otherwise negotiated, training takes place outside of working hours, and it can be unconnected to the needs of the employer. Though transferability between employers is not feasible, a system of validating competences is currently under review.</p> <p>Two criticisms need to be taken account of:</p>	<p>France still has a social protection system that is strongly linked to and built around stability of employment. More protection was gained by opening access to health insurance to all.</p> <p>However, the organisation of the pension system around different regimes does not favour professional mobility (mainly because contribution periods to different regimes are difficult to accumulate). However, the fact that some unworked periods provide the right to pension entitlements does support a lifecycle approach to security (for example periods of maternity, training or</p>	<p>The country's current context favours fixed-term employment while it protects existing employment through strict redundancy regulations. On the other hand, it does little to help individuals in their employment search outside obligatory interventions on behalf of employers to retrain. Several reforms are necessary:</p> <p>Disconnecting access to social protection from status of employment</p> <p>Reforming professional training so that lifelong learning benefits those who are most threatened by insecurity and employment instability.</p>

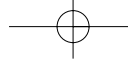


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	<p>kets. Some 46 % of under-24-year-olds hold atypical contracts of employment and fixed-term contracts are far from being a preliminary step towards permanent employment. Social and economic inequalities between permanent forms of employment and atypical forms of employment are still growing. Regulatory tools aimed at increasing the flexibility and the use of permanent contracts for initial recruitment have not succeeded as intended.</p> <p><b>Working time:</b> Strong economic and social inequalities are linked to working time. The 35-hour week regulations have intensified workloads for individuals, but increased flexibility for employers. Managerial workers have benefited the most.</p>	<p>duces a new form of 'amiable' severance. The 2005 social cohesion law brought an end to the PES' monopoly in matters of ALMP. The PES has a greater role in jobseeker follow-up through monthly interviews. However, individualised pathways to work are increasingly linked to private sector providers.</p>	<p>one is that quality is difficult to guarantee and monitor; second is that it still benefits those already in employment, therefore not helping to address the training of those who need it the most.</p>	<p>sick leave). Entitlements are less accessible for periods of unemployment and pre-employment retraining.</p>	<p>Harmonising different statuses of employment; creating a single contract of employment encompassing softer redundancy rules. Regulations need to move from protection of employment to protection of transitions between statuses. Financial contributions from employers for flexicurity measures need to be reinforced.</p> <p>Reforming social dialogue for more representative representation at the workplace level beyond the 'big five'; and more systematic trade union contributions to policy projects in matters of employment.</p>
Italy	<p>The 1997 'Treu Package' and 2003 'Biagi Law' were labour law reforms, both aiming to increase labour market flexibility but with security receiving less attention. The Treu Package started to increase external flexibility in the labour market and this was further strengthened by subsequent reforms in 2003.</p> <p>There are clearly two different segments in the labour force. The first one is characterised by open-ended contracts, a relatively high level of EPL, high pension contribution rates and the provision of unemployment benefits. The second one has fixed-term contracts, a lower level of EPL and unionisation, intermittent working careers and lower wages.</p>	<p>Recent developments in the field of ALMP include: increased attention to training activities; incentives to hire open ended workers; measures to enhance employment in the south; liberalisation of employment services, thus removing the public monopoly. The responsibility for ALMP, including the PES, was transferred from the State to the regions. In spite of developments, Italy still has one of the lowest expenditure on ALMP in the EU-15.</p>	<p>In terms of GDP, training activities financed in 2004 by the public sector were lower than the EU-15 average. Training is heterogeneous because of the responsibility lying with the regions and without central guidelines. The low participation rate of companies providing training also confirms a poor record with respect to LLL. It is significant though that investment in employee training is higher for white-collar workers than for blue-collar workers.</p>	<p>Pension benefits represent an overwhelming share of social protection expenditure; a further reform of the system is on the government's agenda. The significance of the pension system in Italy is due to the traditional role assigned to it (in the absence of universal unemployment benefits and means-tested benefits independent of age) which covers risks different from the old age one including social exclusion and unemployment risks for mature workers.</p> <p>The Italian unemployment benefit system is complex and fragmented, lacking a universal transfer in favour of the jobless. But there exists many specific benefits for different categories of workers. However, the access to</p>	<p>Recent flexibilisation reforms have not affected the 'insiders' who are represented by mature workers already in the labour market and benefiting from generous protection. Consequently the flexibilisation reforms (both entry and exit) impacted on the secondary segment of the labour market and mainly affect younger and marginal workers. An improvement in the social protection of temporary workers (including ALMP and training activities) seems feasible and desirable. A policy priority should be identified in the search for measures able to reduce segmentation, starting from the harmonisation of unemployment benefits and contribution rates among different class-</p>

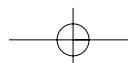


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				benefits depends on the accumulation of contributions that leaves occasional, temporary and younger workers with inadequate insurance coverage.	es of workers. Such a harmonisation could significantly reduce the distorted incentive to hire workers on temporary contracts on the basis of labour cost-reducing strategies, rather than for pure flexibility reasons. The aim must be to eliminate the risk of poverty for individuals who work their entire working life under atypical contracts.
Cyprus	<p>Cyprus has a legislative framework that would support flexible forms of working but the incidence is low. Flexibility mainly comes from the strong SME, self-employed sector and the substantial number of unskilled foreign workers. Easy access to low-cost foreign workers has moderated efforts to tap into pools of additional labour supply — teenagers, women and older workers. Employers pay 6.3 % employer contribution to social security and 0.5 % of payroll to support the Human Resources Development Authority (HRDA), dues to the Redundancy Fund and Defence Levies. One issue for Cyprus is the non-payment of social security contributions — efforts are being made on collection of back payments. Income tax is low as an incentive to declare all earned income but there is scope to improve collection protocols. Minimum wages (non-unionised sectors) have been increasing and are scheduled to increase as a proportion of average earnings.</p>	<p>HRDA leads on ALMP and is funded by payroll tax. Programmes include enterprise and institution-based initial training, apprenticeship schemes and school and tertiary graduates. These focus on matching the supply of skills and demand. The Department of Labour also offers vocational guidance and training. The effectiveness of the programmes is not clear but evaluation is underway. The participation rate in training, for 25–64-year-olds, was 5.9 % in 2005, less than the EU average of 11 %.</p>	<p>Programmes under LLL are more substantial. An LLL committee has been set up; and there is a draft LLL strategy. An important element is broadening options for tertiary education. Investment is being made in new institutions and capacity — the new open university; legislation means colleges can upgrade to universities; the University of Cyprus is expanding; and the Technological University of Cyprus will take its first students in 2007. In addition, occupational mapping and qualifications is being undertaken to increase status of occupations and EU-wide standards for wider mobility.</p>	<p>Unemployment insurance benefit provides basic and supplementary benefits, from 60 % to 100 % of the average weekly-insured earnings in the previous year depending on eligibility. The entitlement period is 156 days. Personalised action plans for employment have been introduced to minimise abuse and facilitate closer monitoring. District labour offices are being modernised. A range of social welfare programmes and community services are also available. The Public Assistance and Services Law 2006 sought to extend assistance and include disincentives to reduce dependence on public funds. The social security safety net, particularly, when it is combined with extended family support, would seem adequate. Plus there are no suggestions of dependency or a welfare trap.</p>	<p>The Cyprus government takes the view that the labour market is quite flexible. Employers would like to see more flexibility but the unions argue against it. Cyprus has a coalition government reliant on support from the trade unions. No real action is likely at this time. There is a strong need to reform and render the public sector more productive. Its system of incentives, rewards and punishments all need to be re-examined and re-designed.</p>

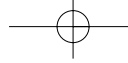


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<b>Latvia</b>	<p>The work contract system is inflexible towards non-standard forms of work. There is limited scope for fixed-term or part-term contracts.</p> <p>The enforcement of work contracts remains weak and does not prevent undeclared work. Preventing undeclared work is one of the top policy priorities.</p> <p>Recent legal changes in relation to trade unions better define the nature and scope of the union role.</p>	<p>The level of expenditure on ALMP is low, but has been rising with the availability of ESF funding.</p> <p>Latvian PES proved to be adaptable in its service offer to the unemployed. They can now choose where to be re-trained, which led to 50 % of participants finding long-term employment.</p> <p>Measures to promote youth employment (e.g. summer internships) are also successful.</p> <p>Weaknesses include the lack of information about training and an inadequate approach to employing people in pre-retirement.</p>	<p>The level of lifelong learning is comparatively high. However, the lifelong learning system does not ensure the adaptability of workers to the changes in the labour market. Employers are not required to provide training to workers, except in the civil service.</p> <p>No major new initiatives are undertaken in this area.</p>	<p>Unemployment benefit is paid for only nine months.</p> <p>Latvia has a high unemployment trap indicator (the marginal effective tax rate on a person moving from unemployment is very high). Recent tax policies (increase of the minimum wage and personal income tax allowance) have reduced the severity of the unemployment trap.</p> <p>The introduction of an earnings-related childcare benefit is expected to enable parents on parental leave to maintain their position in the labour market.</p>	<p>The information base regarding the position of the labour market needs to be significantly improved.</p> <p>Policymakers need to address the productivity challenge.</p> <p>Increasing flexibility would probably be acceptable in the current period of rapid economic growth, but could meet with strong resistance during a significant slowdown.</p>
<b>Lithuania</b>	<p>Labour legislation is not very rigid and employment protection is further liberalised. However, temporary employment is regulated quite strictly.</p> <p>There is an inadequate legal basis for agency work and teleworking.</p>	<p>The overall expenditure on ALMP is very low, but the number of participants and the funding has been increasing. Attention is also focused on individual work with jobseekers and more effective services of Lithuanian PES.</p> <p>However, ALMP for university graduates remain inadequate. The mobility of the unemployed is also not sufficiently promoted.</p>	<p>The level of lifelong learning is comparatively low, but has been rapidly increasing.</p> <p>Significant reforms are implemented to adjust the whole education system to the concept of lifelong learning.</p> <p>However, the lifelong system is not focused on the continuous adaptability and employability of workers and the needs of employers. Its quality needs to be improved.</p>	<p>Social security of the unemployed has significantly improved since 2005. The new law also led to a more reliable control over unemployment benefits and motivating unemployed people to look for a job.</p> <p>Recent changes have significantly increased the incomes of individuals. The policy of minimising individuals' income tax and increasing the minimum wage and tax-exempt amount of income is in progress.</p> <p>Cash assistance to people on low incomes also significantly increases the social security of the population.</p> <p>However, it is necessary to combine better social assistance and employment policy measures to facilitate low-skilled people moving to employment.</p> <p>Free movement of the labour force has increased employment opportunities for Lithuanian residents.</p>	<p>The quality and effectiveness of lifelong learning systems need to be improved radically.</p> <p>There is a need to strengthen social dialogue on employment issues and shift policy focus from ensuring job security to employment security.</p> <p>Social assistance needs to be more effectively combined with employment incentives to encourage low-skilled people to take up jobs.</p>

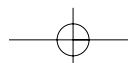
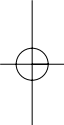
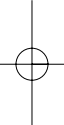


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<b>Luxembourg</b>	Luxembourg has advantageous employment legislation, providing flexible arrangements that allow social partner engagement at national level on matters of their interest. The law of May 2006 on working time regulations contributed to some flexibility. It introduces opportunities of exemption around certain aspects of working time regulations.	A new legislation project is currently seeking to enhance earlier activation of ALMP to limit vulnerable workers falling into benefits dependency, and to enhance employability of those on the PES register. Rapid re-activation is at the centre of reforms, and is especially important in cases of short professional careers. Current reforms seek to enhance rapid access to employment, which is complicated in a context of regionalised labour markets in Luxembourg (where cross-border mobility is a very important factor to consider).	Lifelong learning is a major issue for Luxembourg. A new legislative project was agreed in May 2006. Career guidance and professional initiation courses will become an integral part of the education and training system, instead of simply being part of preventive unemployment measures. Such courses are offered over the course of one year to young people who left school early or do not have access to professional secondary education. Longer-term technical and professional courses will also be offered to adults seeking to raise their employability. In September 2006, the government agreed on a legislation project with regard to professional training. It places emphasis on the learning process of young people in difficulty. Reforms cover all areas, from basic training to training for professional conversion.	Larger concepts around 'maintaining employment' have recently been discussed, and present more advanced security concepts in the context of flexicurity. On matters of collective redundancies, current proposals seek to introduce pre-notification mechanisms that would centralise information as early as possible, and enhance the possibility of managing employment forecasts. In cases where collective redundancies (redundancy for economic reasons) are inevitable, preventive measures seeking to maintain employment should be activated as early as possible to minimise the numbers of individuals going through a stage of unemployment. Developing unemployment prevention plans are the responsibility of social partners. A central information arm can coordinate social partners' effort in matters of employment measures. Government can assist financially during transition periods so as to promote re-training measures (and similar measures). Overall, preventive measure to maintain employment seek to limit the use of social plans (an obligatory part of collective redundancy procedures in Luxembourg), and maximise the alternative use of negotiations over preventive measures at earlier stages instead.	Due to recent protest from political representatives of young people and students, the entry into force of the reviewed unemployment legislation has been postponed. Overall, social security in matters of unemployment remains the weaker component of flexicurity Luxembourg needs to work towards.
<b>Hungary</b>	The Labour Code favours open-ended contracts, with strict conditions for fixed-term contracts to be treated as open-ended (in order not to be used excessively, espe-	Typical ALMP targets disadvantaged group (long-term unemployed, people aged under 30 and over 50 and parents with small children) and provides a payroll tax exemp-	Although there is public debate about lifelong learning, it is still a weak element of the flexicurity system. There is little participation in adult education, especially among poor-	The rather high minimum wage (almost 40 % of the gross average wage in the economy) can decrease labour market flexibility and have negative consequences for secu-	Hungarian labour market legislation especially that regulating layoffs is quite rigid and employee friendly, thus creating potentially large costs, associated with firing, for employ-

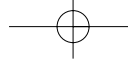


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	<p>cially to the employee disadvantage). Although fixed-term contracts should allow more flexibility to employers, in reality they give high security to the employee and little flexibility to the employer during the contractual period. Employee (when fired during this period) is entitled to the forgone earnings up to the end of the contract (up to one year maximum), thus making it very costly to the employer. The termination regulations of long-term contracts are quite strict for employers, with a need to justify the reasons for breaking the contract on their side. In many cases, this regulation ties the employer's hands. Even when exceptional lay-off rules apply the consequences for the employee are small and he/she is entitled to severance pay. Labour law is characterised by rather long termination periods (with notice between one month to one year) and severance pay (one to eight monthly salaries in public sector) depending on the employee's overall tenure. Collective dismissal procedures are also strict and lengthy, which may be very costly to the employer. Heavy protection of some worker groups (e.g. workers on sick leave, pregnant women) may discourage employers to hire a person susceptible to be in such a situation.</p>	<p>tion for employer for hiring such a person. New — more transparent — ALMP system based on tax deductions is being introduced, with the first part aimed at increasing the chance of workers with little or no work experience finding a job (for graduates under 25 and higher education graduates under 30). Next year, an additional two similar programmes will be launched, one with identical tax regulations and eligibility periods for the long-term unemployed, parents on maternity leave and people taking care of disabled or ill relatives. The second programme will help older people or the low-skilled, long-term unemployed. The new programme can increase the employment chances of disadvantaged individuals but can be prone to spillover effects (in jobs with low fixed costs it may pay the employer to exchange a current employee with one eligible to the tax reduction).</p>	<p>ly educated and unemployed people. Despite low participation, the tax credit has been abolished, which decreased the cost of education by 30 % yearly (with a maximum of HUF 60 000). A negative signal is the increase of the number of classes to be taught by teachers, without any change in their compensation. It is a positive policy change (at planning stage) that public institutions (schools among them) will be given more independence in their hiring, firing and compensation policies. The needs of the institution can be decided directly by the directors, which will induce higher level of flexibility and adaptation to local needs.</p>	<p>ity, as it means less employment opportunities for low-skilled people. The Hungarian government improved its unemployment legislation in 2005. The current system ties unemployment benefit to earnings in the previous job. It also provides incentives to actively seek work and states that assistance should be provided by the labour offices. Only those who actively seek work are entitled to unemployment benefit. While this solution seems adequate, there are certain concerns. It is not clear how efficient the monitoring of the search is and how the unemployed are assisted by the labour offices to find a job.</p>	<p>ers. The high minimum wage also cuts back wage flexibility and it may also decrease the chances of low-skilled unemployed people finding a job. The programmes of flexicurity may not have high results without a dynamic, prosperous economic environment. Unfortunately, the Hungarian economy is struggling with a high budget deficit. The government's attempts to return the economy to stability will have negative consequences for Hungarian employment in the short run. The government package launched to stabilise the budget deficit includes increasing the tax burden on labour and on companies in general and the restructuring of the public sector. Both arrangements will result in layoffs and thus next year's unemployment rate will rise. Despite the improved unemployment legislation, it is expected that labour market security will tend to decline due to the overall economic situation.</p>

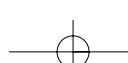
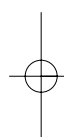
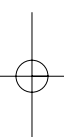


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<b>Malta</b>	Malta's labour laws are numerous and complex; most have been designed to provide security for employees. This legislative 'security blanket' could act against the implementation of flexicurity. Taking forward flexicurity would require a wholesale examination of employment legislation to ensure that a supportive environment is created. One point of concern in Malta is the fact that the government as a major employer is not subject to the same legislative requirements.	The Maltese government appears to be fairly interventionist. It has developed a number of labour market agencies including: the Employment and Training Corporation (ETC), the public employment service which also has responsibility to provide training services to individuals in employment who want to improve their skills; the Department of Industrial and Employment Relations (DIER), which deals with employment relations, contractual and legislative conditions of employment.	In July 2001, the Ministry of Education in Malta committed itself to the Lisbon agenda's aims in the provision of lifelong learning. The Department for Further Studies and Adult Education provides a range of courses for over 7 000 students and adults. The Division of Education has been increasingly investing in personal and social development and technology education at all levels. The two main post-16 education sources are MCAST, which provides further education, and the University of Malta. In 2005, the Malta Qualifications Council was established, and the intention is to have a clearly suited hierarchy of qualifications and to motivate people to achieve higher levels.	The Ministry for Family and Social Solidarity deals with this. Two objectives of the social security system are: (i) to tune social protection and employment training systems to parallel active labour market policies; (ii) to ensure that Maltese citizens enjoy the same benefits and rights as other European citizens. These aims show recognition of the importance of the social security system to the labour market and, by implication, to the notion of flexicurity.	Flexicurity is not well known nor well understood, so one challenge is publicising the concept and developing a deeper understanding of the implications of embarking on a strategy of flexicurity. Both employers and employees need to perceive the advantages — but this would require a change in the workplace culture and the need to establish greater partnership working. Most of the stakeholders have reacted positively to flexicurity albeit with some reservations. Positive statements have been made by the Malta Business Bureau, Malta Employers Association, and the UHM trade union. Reservations are around costs and who benefits — practical assurances would need to be issued if progress is to be made. Taking forward flexicurity would require: a wholesale review of labour law; reassurance that the additional costs to social security could be adequately sourced; and, that reform would deliver improved economic and labour market growth.
<b>Netherlands</b>	EPL is flexible, allowing for the use of different forms of employment contract while emphasising access to the same (pro-rata) conditions and benefits. Part-time work is particularly widespread and tends not to be regarded as a non-standard form of working. In addition, recent years have seen a number of changes being implemented which have served to create an even more flexible labour market.	Labour market policy in the Netherlands strongly emphasises supply side measures, by strengthening incentives in social security and fiscal policy. Demand side measures are largely focused on initiatives to assist with the reconciliation of work and family life. No specific policies have been developed for target groups as a matter of policy. The number of traditional ALMP is therefore limited.	Measures have been adopted to encourage a more even distribution of work, caring and education over their lifecycle. The 2006 Life Course Act allows employees to save part of the annual salary to finance a period of leave later in life. However, the scheme is not limited to taking leave for education or training purposes, but can also be used to fulfil caring responsibilities. In addition, it does not entitle the worker to	The main social insurance provisions are the Unemployment Act and the Disability Benefits Act. Both have been reformed and reorganised in recent years to sharpen eligibility criteria and in some cases reduce the level of benefits available. The disability benefits system in particular has been under fire as a result of perceived misuse. Reforms have strengthened the requirement to take up suitable work and the definitions of disability.	The question of the extent to which supply side measures and more restrictive benefit regimes have been successful in creating jobs should be addressed. Research has argued that although the number of those registered unemployed has declined, there is little evidence that these individuals have re-entered the labour market. There has also been an increase in the number of those relying on social assistance as they fall outside the



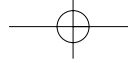


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	<p>The Working Hours Act provided greater leeway for employers and employees to negotiate working hours at local level. The Working Hours Adjustment Act (2000) allows employees the right to increase or reduce their working hours irrespective of the reasons for doing so. Employers can only refuse such a request if complying would lead to serious problems for the organisation itself. The 1999 Law on Flexibility and Security removed the requirement for temporary agencies to possess a permit. Maximum terms of this type of employment were abolished. Fixed term contracts can now be renewed three times (instead of once). The maximum notice period for dismissals was reduced from six months to four months. Requirements for reporting redundancies have been lightened. In relation to security, special dismissal protection has been introduced for employees engaged in trade union activities. A workers' contract with a temporary work agency is considered a regular employment contract after 26 weeks. The introduction of a so-called 'presumption of law' strengthened the position of workers without formal contracts of employment.</p>		<p>take leave; this has to be negotiated with the employer. In 2005, the government and social partners agreed on the establishment of an agency responsible for increasing the number of people enrolling and qualifying for vocational qualifications.</p>	<p>However, the availability of suitable positions and employer attitudes are seen by many researchers not to have kept pace with reforms, thus limiting the activating effect of these measures. Greater emphasis has also been placed on the early re-activation of workers on sick leave from their workplaces.</p>	<p>scope of unemployment and disability benefits.</p>
<b>Austria</b>	<p>Candidates for public sector labour law reform are the fixed term system for civil servants; steep seniority related wage profile; and the privileged retirement system. The introduction of a special care benefit in private care services</p>	<p>ALMP are the showcase of Austrian flexibility policies. AMS (Austrian PES) has clear targets which are closely monitored on federal, regional and local levels. AMS has been instrumental for example in keeping long-term unemploy-</p>	<p>In the education system there are indicators of under-performance with one fifth of an age group performing rather poorly with respect to literacy and numeracy. Early school leaving also leads to very low numbers of university graduates</p>	<p>The social security system in Austria is currently being modernised. The approach adopted is one of consensus which arguably takes more time but achieves longer-term results if maintained. One reform which was the result of tripartite</p>	<p>Public sector labour law reform would increase flexibility; reform of labour market for private care services would increase security. Developing a comprehensive strategy towards education and training in Austria,</p>

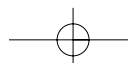
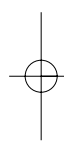
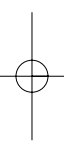


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	<p>mainly for elderly people has led to a non-documented labour market served mainly by women workers from Slovakia and Poland who are paid far below the minimum wage. Although most elderly people are eligible for the special care benefit, its size is too small to cover wage costs at the current minimum wage rate. Perhaps it is more likely that new rules will emerge at the level of collective bargaining agreements rather than through legislation.</p>	<p>ment down and in offering remedial programmes for early school leavers. AMS has strong gender mainstreaming commitment. Tripartite structure underpins participation of stakeholders and also overseeing body.</p>	<p>(as a share of each age group). In lifelong learning some initiatives by AMS in the provision of training to adults have demonstrated positive impacts on employability of individuals as well as substantial private rates of return on the financial investments involved.</p>	<p>negotiations focused on replacing old severance pay rules. These rules were inequitable and were distorting hiring and firing decisions of firms. This system was replaced by a severance account system which is less costly, exerts hardly any distorting effects and covers short employment spells. Some provinces have adjusted rules of social assistance administration in order to give the working poor better access to social assistance. This helps to make work pay especially to those who are in desperate need of financial resources. Comprehensive social security reform is now widely discussed — <i>Grundsicherung</i> — about a general entitlement to a uniform basic benefit.</p>	<p>which harnesses the steps and initiatives already taken, is on the agenda for reform. It is necessary to reverse the recent trend of a declining share of education in GDP. Modernising lifelong learning primarily needs funds and a comprehensive strategy with clear targets and close monitoring. Current discussion (<i>Grundsicherung</i>) about reforming the social security system aims to replace the fragmented benefit system for the poor, paying close attention to the interaction between the tax system, the social security contribution and the benefit system. Modernising the social security system is less about additional funding and more about finding a consensus on a few basis rules that would substitute for the existing fragmented system.</p>
<b>Poland</b>	<p>Polish labour law is fairly flexible and allows for a relatively flexible organisation of labour and the use of non-standard employment forms. Employment protection legislation is considered slightly less strict than the OECD average with the relatively easy dismissal of employees and a short termination period, but rather high procedural inconveniences connected with the termination of temporary employment contracts and strict collective dismissal regulations. There are no legal barriers to increasing labour organisation flexibility by using no labour-law-based employment (outsourcing and contracting work based on</p>	<p>With the new adjustments of ALMP to EU requirements and standards, some tools and actions were targeted only at the category of people disadvantaged in the labour market. Despite the increases in ALMP funding, the scale of expenditure was still insignificant (in 2005, it amounted to 0.19 % GDP) and unable to take up the role of absorber of fast and frequent changes in employment. Hence, in its current form, it cannot be treated as the key element of flexicurity because it does not provide increased employment opportunities to unemployed people, and does not improve their security.</p>	<p>The development and availability of lifelong learning systems are inadequate. The problem of insignificant participation of the labour force in LLS stems from the lack of training programmes supported by the State, and inadequate participation of employers in educational processes. Negative characteristics of the Polish LLS are: dispersed training services market, weak learning infrastructure, outdated vocational training programmes, lack of information on real training needs. The existing LLS in Poland is unable to sufficiently improve quality of labour and therefore it contributes little to guaranteeing security in the labour market.</p>	<p>Decisions taken in the 1990s (lowering of retirement age, liberal criteria of granting disability benefits, pre-retirement benefits) coinciding with limited job opportunities caused a significant economic deactivation of the labour force. This does not stimulate any activity, apart from the activity to search for sources of support, causing 'support addiction' and encouragement to exit from the labour market. There is a strong social and political opposition towards any attempts of the verification of benefits. The new Acts on Social Employment and Social Cooperatives provide the possibilities to provide financial support for people</p>	<p>Flexicurity in the labour market is neither a priority issue in Poland, nor a priority in economic policy and politics. Promotion of flexicurity in order to weaken ongoing labour market segmentation and increase vocational activity is necessary. Priority action is necessary to promote lifelong learning among employees and employers (through popularisation of the idea, information and guidance, financial support and development of the system of skills/qualification certification). Social services should provide income during the period of active search for work and create conditions for vocational activation by imposing some conditions and obligations to be met to access bene-</p>

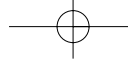


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	<p>civil-legal contracts). Although there are no significant legal barriers in the use of non-standard forms of employment, the use of these forms is assessed as meagre. A low level of unionisation (especially in SMEs) is the reason for a fairly flexible mechanism of pay negotiation and a low number of collective labour arrangements.</p>			<p>threatened by social exclusion, but are not a substitute for labour income, but a means of support in particular life situations.</p>	<p>fits. A review and reform of social benefits should be carried out. ALMP should see a significant increase in expenditure and improvement of PES functioning. In order to increase the flexibility of employment, it is necessary to provide non-standard-based employment with the same level of protection in working conditions.</p>
<b>Portugal</b>	<p>Portugal represents the country with the least flexible labour legislation of the EU-25, and the second highest in terms of the scale of fixed-term contracts (only surpassed by Spain). Contractual flexibility is almost non-existent once an employer decides to enter into a permanent employment contract with an employee. This greatly hinders the restructuring capabilities of most companies, particularly SMEs, and creates strong inequities between workers in highly protected jobs and workers who rely on fixed-term contracts. The new Labour Code introduced in 2003, failed to address positively the issue of labour market segmentation and fixed-term contracts are still growing and used exploitatively by employers. In order to reform labour law, a Green Book for Labour Reform is currently being discussed by an Expert Commission. A new legal framework for interim work is also under consideration by Parliament.</p>	<p>Although expenditure on ALMP in Portugal has increased in recent years, it is still below the EU average. The government is undertaking a review of the general principles of employment policies which aims to focus on four types: entrepreneurship and self-employment; job creation; alignment between employment supply and demand; and the stimulation of employment demand. The outcomes of this review will be discussed and agreed with social partners.</p>	<p>Participation in LLL is well below the EU average. The government's flagship policy is the new opportunities initiative which thus far has not demonstrated any significant improvements. Considerable expectation has been created by the Labour Code and its ability to boost LLL through the creation of compulsory continuous training for permanent workers created in 2005. But again results are disappointing.</p>	<p>In October 2006, the social security reform was approved aimed at ensuring greater sustainability and justice for all citizens. The new features are:</p> <ul style="list-style-type: none"> <li>• introduction of a sustainability factor, adapting social security system in general and pensions system in particular to the evolution of life expectancy;</li> <li>• acceleration of the transition period to new pensions' calculation formula, which takes into consideration the totality of contributions throughout the working career and also because it provides greater social protection to low-income workers;</li> <li>• further incentives on active ageing through a new active ageing national strategy and through flexibility of the retirement age;</li> <li>• establishment of new pension updating mechanisms and termination of indexation of pensions' calculation to minimum guaranteed wage, in favour of raising lower pensions;</li> <li>• improvement of the sustainability and transparency of the social security system financial model and the approval of a Contributory Code; and the modification of special contributory regimes.</li> <li>• reinforcement of the information provided to social partners and civil society in general concerning the social security system.</li> </ul>	<p>As long as employers in Portugal perceive permanent contracts as 'irreversible contracts', they will continue to use fixed-term contracts extensively and even abusively. One of the key challenges is to introduce more flexibility into labour legislation with respect to the hiring of workers on permanent contracts without hindering too much the perception of security. A second priority relates to the lifelong learning elements of flexicurity. The aim should be to develop a system more aligned to the interface between supply and demand. Particular attention should be addressed to low-qualified employees in traditional industrial sectors who are at a very high risk of social exclusion due to their lack of education and skills. Women over 40 are a particular high-risk group. Job creation programmes could help workers who experience redundancy to find new opportunities in the labour market.</p>

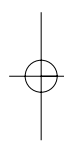
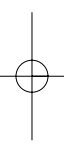


TABLE 2 (CONT.) → BALANCING LABOUR MARKET FLEXIBILITY AND SECURITY — SUMMARIES OF SYSDERM EXPERTS' NATIONAL REPORTS ON FLEXICURITY (EEO, 2006)

Country	Labour law	Active labour market policies (ALMP)	Lifelong learning systems	Social security systems	Priorities for reform and/or areas requiring further attention and development
<b>Romania (joined the EU 1.1.2007)</b>	<p>Joining the EU means the closing of a chapter for Romania — that of the plan to market transition. Full EU accession will include ambitions about flexicurity: a flexible labour market buttressed by sustainable and robust elements of security. Romania's new Labour Code, adopted in 2003, sets an entirely new framework for labour relations. A host of provisions allow for flexible working arrangements by creating new mechanisms. Nevertheless, open-ended contracts are the norm and their termination is extremely difficult. The relaxation of firing and hiring rules remains a significant issue requiring further debate. Rules for concluding fixed-term contracts will have to undergo further relaxation so as to allow for the conclusion of successive fixed-term contracts to suit the needs of every enterprise.</p>	<p>In spite of the rise in expenditure on ALMP in recent years, the results have not been impressive in terms of the number of participants. A large part of the surplus reported by the Unemployment Insurance Fund is due to the low take-up rate of ALMP. It is recognised that the current approach to ALMP needs revamping by employing a more customised approach. The emphasis also needs to shift from subsidies and temporary employment for public works to labour market counselling and especially to vocational training.</p>	<p>Designing and implementing truly innovative schemes will boost the demand for vocational training. More funds will be available for human resource development once the EU Structural Funds become available to Romania, which would help to deliver the training that is much in demand from the economy.</p>	<p>Romania adopted a new Unemployment Insurance Law in 2002 which provided a new framework for the country's ALMP while in the meantime introducing a flat-rate unemployment benefit, to be subsequently changed to a rather more contribution-related system which started on 1 January 2006. A new pension law, adopted in 2000, came fully into force on 1 April 2001. The period since 2000 also witnessed a drive towards the reduction of the tax wedge on labour, with contribution rates for all social protection schemes being constantly cut, starting in 2002 and continuing with the aim of increasing competitiveness of enterprises and stimulating job creation. Finally, in 2005, the government abandoned progressive income taxation for a flat rate of 16 % income tax, to be applied firstly to salary incomes and then progressively to all incomes.</p>	<p>Policies are now required that are more suitable for an emergent market economy. In the context of economic growth and mature social partnership discussions, the path to follow is one of devolution and customised solutions for specific problems. The design, implementation and funding of ALMP is a priority in order to acquire the proper mix of ALMP to suit the socio-economic context. Consolidating the country's mandatory social protection scheme is a priority for government both in terms of sustainability and robustness. These schemes need to serve as the baseline of overall social security in the 'upstream' of the labour market and thus allowing for greater flexibility 'downstream' on the market.</p>
<b>Slovenia</b>	<p>Employment protection legislation is at the average EU-15 level. Recent laws have been adopted to simplify hiring and firing, facilitate job creation and increase flexibility in labour relations. Negotiations are ongoing on further amendments. Current laws do provide a basis for flexible forms of employment. Employers particularly favour fixed-term employment. Multiple usages of fixed-term contracts for the same person are popular. Fixed-term work is much more widespread amongst young people, whereas older workers are employed in predominantly permanent full-time jobs. Most utilised forms of flexible employment are those that enable greater work intensification.</p>	<p>ALMP are almost entirely dedicated to the unemployed population. ALMP have experienced many changes and improvements and have increasingly contributed to reducing unemployment.</p>	<p>Lifelong learning is widespread and has improved remarkably in recent years. Validation systems of informal and workplace learning have been introduced. Structures for career guidance and counselling are established. Workers on flexible contracts have limited access to training.</p>	<p>A relatively well-developed social security system ensures low levels of poverty, unemployment rates and the share of working poor. However, its costs are relatively high. Recent legal changes are aimed at greater activation of the registered unemployed and social benefit recipients. The criteria for a suitable job or employment activity has been redefined and broadened. Sanctions for not accepting such employment were introduced, including losing unemployment assistance.</p>	<p>There is need to search for a consensus on the suitable direction of reforms and to build trust between the social partners. The main challenge is to implement and enforce current legal provisions. Measures to maintain the employability of people in employment need to be introduced (e.g. competency assessment, career counselling for the employed). The rights of people in flexible employment need to be equalised with the rights of permanent and full-time workers. Incentives for introducing new job vacancies should be adopted.</p>

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<b>Slovakia</b>	<p>Employment protection has recently been liberalised (simplified hiring and firing, shorter notice periods, deregulation of working time, easier contracts for fixed-term and part-time work). However, there is still a lack of established and mutually beneficial agreements over temporary and part-time work and a lack of incentives for certain vulnerable groups.</p>	<p>ALMP have been substantially transformed. Emphasis is now put on activation and motivation to work. Focus on disadvantaged jobseekers and regions has improved. Client-oriented approaches were introduced and the misuse of employment services was reduced. However, ALMP have been insufficient to reach the most vulnerable groups of the unemployed (e.g. the Roma population). They also suffer from frequent changes in legislation and lack of critical reflection. Spending on ALMP is low compared to the high unemployment rate.</p>	<p>A comprehensive lifelong learning strategy is missing. The education system is lagging in the reform process. The take-up of lifelong learning is low and not a policy priority. The infrastructure is underdeveloped and links between formal and non-formal education are insufficient. Spending on education and R &amp; D is low. However, there is some progress in reforming formal education (e.g. better financing). Educational attainment results are good and the rate of early school leaving is low. Demand for higher and lifelong learning is growing, and lifelong learning centres have been established within universities.</p>	<p>A new social security system was introduced in 2003. Emphasis was on targeted support, and the provision of social assistance is now partially dependent on the activity of the recipient. This negatively affected large families headed by unemployed adults. Other social policies are also proactive in supporting employment (e.g. child allowances were revised to motivate parents' employment). Reform of the tax system (introduction of a flat rate tax) reduced the unemployment trap and the tax wedge on labour cost.</p>	<p>Flexibility of employment legislation should be preserved. ALMP for disadvantaged groups need to be intensified. Links between social assistance, ALMP and lifelong learning need to be strengthened. More progress on reforming lifelong learning systems is required, especially building links between formal and non-formal education, involving key stakeholders and employers, providing financial incentives for training. The adequacy of social security system should be carefully monitored, particularly in relation to vulnerable groups.</p>
<b>Finland</b>	<p>Compared to other industrial countries, the effect of globalisation on Finnish business operations has been above average because business operations are concentrated on companies that are large in size and operate internationally on an extensive scale. The internationalisation and rise of foreign ownership in Finnish businesses has also been shaping wage formation, terms of employment and the way in which the labour market functions. Wage settlement changes that have occurred in labour market organisations have, to some extent, increased wage flexibility and the significance of local agreements. The possibilities for union-specific wage hike increments enable enterprise specific agreements, although these have been very modest.</p>	<p>The cornerstone of Finnish employment strategy has been to promote economic growth and to solve unemployment problems through a centralised income policy based on tripartite cooperation. The role of ALMP has been modest compared to other countries. During the recession in the early 2000s, the activation rate and amount of funds earmarked for ALMP started to increase. The rise in activation rate was significantly affected by reforms in labour policy implemented in the last two years. The main goal of reforms was to reduce long-term unemployment by increasing the amount of individually-oriented measures and by improving the traditional labour force guidance provided by employment offices geared towards the open labour markets. In recent years,</p>	<p>The <i>Employment in Europe</i> report (2006) p.125 puts Finland in one of the higher achieving countries in the EU with respect to the lifelong learning participation rate. Spending on the category of training of ALMP as a percentage of GDP is also high (only Germany, Denmark and Sweden are higher spending countries). (Sourced by GHK).</p>	<p>In order to increase the motivation for working, incentive traps have been reduced primarily by reducing the taxation of low income workers and by reducing their income-related service payments. Despite lowering the reservation wage two years ago, work incentives are still a considerable problem, especially in low-wage professions and are getting worse because of the greater prevalence of atypical jobs. In 2006, the activation rate of unemployed people started to rise again and the eligibility terms regarding unemployment benefit of the long-term unemployed have been tightened.</p>	<p>The exposure of Finnish export companies directly, and the domestic market indirectly, to international trends regarding wages and terms of employment and the coming wave of retirement are very serious challenges for Finland's welfare state and is perpetuated by high taxation and a large public sector. According to estimates made in Finland, the flexibility of the labour market is internationally speaking fairly high, but there is room for improvement in employment and job security. There is widespread consensus that in Finland the tripartite model, consisting of labour market organisations and the government, in the long run will generate better employment security and economic performance as well as a more even distribution of income.</p>

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	<p>Atypical jobs have become more common; these include fixed-period and part-time employment and also workforce renting. The job security of employees in atypical jobs has improved in recent years. In Finland, the notice period for layoffs varies from 14 days to six months. The legislation on labour agreements has not been changed with respect to layoffs in recent years.</p>	<p>employment offices have filled an increasingly smaller number of open jobs which indicate, among other things, that the individually-oriented services for the hardcore structural unemployed (for more than two years) tie up an increasing amount of staff hours.</p>			
Sweden	<p>The precedence given to collective agreements over labour law provides significant leeway for 'negotiated flexibility' at the local level. This includes the agreement of working hours. Swedish EPL is considered fairly restrictive in international comparison, but the original Act of 1974 has been modified since the mid-1990s to provide greater flexibility. A 1997 reform created a new form of fixed term contract allowing employers to hire up to five staff for a limited duration of no more than 12 months in a three-year period. As a result, the share of fixed-term contracts has increased, although the standard open-ended employment relationship remains the norm. In 2006, an Act was passed in the Swedish Parliament which requires an employer to provide an open-ended contract to a dependent employee who has been employed on a short-term contract for a period of 14 months during the last five years. In the case of collective redundancies, 'security/adjustment agreements' negotiated by the social partners aim to rapidly find new jobs for employees who have been served with redundancy notices.</p>	<p>Active labour market policy has been an integral part in maintaining high levels of employment since the 1950s. This comprises a fairly generous unemployment insurance system and a wide range of ALMP programmes, with the latter always taking precedence. Social partners are heavily involved in the planning and implementation of these programmes. The 1990s saw a reorientation of ALMP towards matching efficiency and enhancing occupational and geographical mobility.</p>	<p>The government and social partners have placed increasing emphasis on the role of vocational training and LLL in ALMP thus highlighting its role in achieving occupational mobility in the context of economic restructuring away from low skilled tasks. Since 1974, employees have been entitled to statutory leave to pursue training. Access to training leave is also promoted by a system of public loans with highly subsidised interest rates. The Individual Training Leave Act aims to encourage social and occupational mobility and facilitate access to education for employees with low levels of compulsory education. It provides significant leeway regarding the length and choice of studies. Adult on and off the job education provision is high, with 33.5 % of the total workforce aged 25–64 participating in some form of training in 2005.</p>	<p>The Swedish welfare model is based on the principles of egalitarianism, de-commodification and individualisation and is strongly linked to a full employment model with dual earner households and high levels of labour force participation at both ends of the age spectrum. The model of the dual earner household in particular is bolstered by generous parental leave provisions offering high replacement rates and a strong system of childcare support and family leave entitlements. A 1994 reform of the pensions system encourages flexible and gradual exit from the workforce by allowing workers to claim partial pension benefits while continuing to work and at the same time building up additional entitlements. At the same time, the system does not allow pension benefits to be drawn before the age of 61.</p>	<p>The new centre-right government elected in October 2006 has announced its intention to increasing resources for job matching. Furthermore, it plans to strengthen incentives to work by reforming the unemployment benefit system. The government has also announced a major income tax reform with an emphasis on reducing the threshold and marginal effects for low and medium earners. Proposals are also being prepared to change the rules regarding fixed-term contracts, allowing the same employee to have a FTC for a maximum of 24 months in a five-year period instead of the current 14 months.</p>

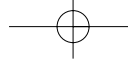
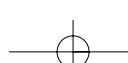
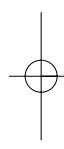
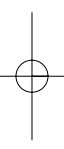


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<b>United Kingdom</b>	<p>For employers, the UK labour market is comparatively lightly regulated, making it easy to hire and fire. Related to this, the UK also has relatively low labour costs and low levels of overall business taxation.</p> <p>The UK has the lowest levels of job protection (measured as EPL) across all EU Member States in the OECD.</p> <p>For employees, the last decade has seen several measures to improve the flexibility of individual working arrangements to decrease labour market segmentation as well as new measures to remove discrimination in the workplace: extended rights to request flexible working and time off and age discrimination</p>	<p>The UK put in place a programme of New Deals to raise employment levels. At its core is a set of rights and responsibilities for job-seekers. Each individual on the New Deal gets a personal adviser who is able to help them to access employment or skills training, work experience or subsidised employment. If individuals fail to demonstrate that they are actively searching for employment or they fail to attend mandatory interviews, placements or employment opportunities they may forfeit their unemployment benefit.</p>	<p>Particularly significant reforms include Train to Gain which offers employers free training for employees to achieve a first full Level 2 (or Skills for Life) qualification. The qualification credit framework introduces a unit-based qualification framework that is underpinned by a system of credit accumulation. This will allow individuals to build up credits from all aspects of learning, not just the national qualifications framework. In addition, regional skills partnerships and sector skills councils are leading the way towards employer-led skills training and qualifications.</p>	<p>Social security payments for those not in work are designed to offer a minimum safety net rather than a status-preserving income in order to avoid a welfare trap. The government is introducing reforms specifically targeting individuals on incapacity benefit (IB). From 2008, there will no longer be IB, there will be a new employment support allowance (ESA) that will be paid at two rates; a 'work-related activity component' for people judged able to move towards work and a 'support component' for people judged unable to work. Claimants will have to undertake compulsory work focused interviews or risk losing their benefit.</p>	<p>The UK has succeeded in creating a dynamic, competitive economy with high levels of employment. The key factor has been competing on the basis of an efficient, lightly regulated and low-cost labour market.</p> <p>The term 'flexicurity' is not used in the UK but there is an awareness in policy development of the need to consider the interaction between flexibilities in employment legislation, regulatory frameworks and active and passive labour market policies. As a result, UK policy has been steadily moving closer towards achieving a number of the constituent elements of flexicurity. However, there are still issues to be tackled. Based on a legacy of low taxation and low investment in human capital, the UK has a long history of under-investment in education and lifelong learning. Overcoming the skills deficit, to catch up with key competitor nations will take several decades.</p>
<b>Croatia (candidate country)</b>	<p>One of the most rigid systems of employment protection legislation in Europe was liberalised in 2003. Temporary work agencies were introduced, notice period and severance payments reduced, and formal procedures for collective dismissals were simplified. Firing costs for employers were thus reduced and the speed of labour adjustment increased. However, it is still one of the most protected transitional labour markets. Moreover, compliance with the legislation is low. The degree of labour flexibility is mixed.</p>	<p>ALMP have been implemented to promote education, new employment of various groups of unemployed people, self-employment, credit financing of SMEs and public works. Youth employment has been co-financed and employment of vulnerable groups has been supported. ALMP have been efficient considering the number of people employed, but have been insufficiently focused on the less employable population groups. Not enough emphasis is placed on the improvement of qualifications and skills as well as adaptability</p>	<p>Lifelong education is neglected. The number of participants is low, the number of specialised institutions and staff insufficient. The budget for adult learning is unknown. No systematic campaign has been launched yet to promote lifelong learning.</p>	<p>Social protection expenditure is high (24 % of GDP). Average total wage cost is very high in Croatia. But there has been a consistent policy to cut the non-wage costs of labour and reduce the labour tax wedge. Measures of further flexibility also include making firing easier (cutting severance payments and reducing notice periods).</p>	<p>Relaxing employment protection could enhance employment in the official sector and reduce relatively high unemployment. Administrative and organisation barriers to establishing SMEs should also be removed to facilitate job creation.</p> <p>Lifelong learning activities should be given a priority, especially as means to increase the adaptability and employability of the labour force.</p> <p>Social dialogue needs to be enhanced, including improvements to the system of mediating and arbitrating labour disputes.</p>



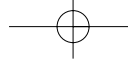


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	Fixed-term contracts are popular amongst the newly created jobs, and shift-work is relatively high. However, part-time and temporary employment is underdeveloped.	and employability. A stronger emphasis is developed on active measures in employment policy, with unemployment benefits linked to participation in training and re-training programmes.			A more effective and mutually beneficial system of collective bargaining should be fostered.
<b>Turkey (candidate country)</b>	Labour market regulations are an important area in the adoption of the EU <i>acquis</i> . The new Turkish Labour Code (2003) formally introduced new modes of employment such as part-time work regulations and flexible-hours arrangements. However, the new Labour Act No 4857 did not change Turkey's rigid employment protection schemes.	Capacity of ISKUR — Turkish Employment Agency — increased in recent years with support of Turkish government and EU funding. Institutional and financial capacity, however, requires further strengthening in order to meet the needs of approximately 2.3 million unemployed people. The law on occupational competence recently introduced (October 2006) will establish principles and rules regarding the national occupational competence system, which will in the future provide a framework for ISKUR's increasing involvement in ALMP.	Although one third of unemployed people in Turkey lack occupational qualifications and skills, the majority are unable to access a college in spite of employers being unable to find qualified workers to fill their technical vacancies. Current vocational educational system requires extensive modernisation, improved governance and better links to the Ministry of Labour. Regional coverage is a strength. A recent initiative involves the largest industrial family holding in Turkey, Koc Holding, granting scholarships to students mainly from less privileged rural backgrounds and 50 % women.	From January 2007, the Turkish government finally sanctioned the operation of one social security institution, which ended the tripartite system that had been in place for decades previously. Uniformity of benefits remains a critical issue, however, and the outcomes will need constant evaluation as the new system progresses in coming years.	A key flexicurity challenge for Turkey is relaxing its employment protection legislation. The current harsh statutory firing costs (severance pay) leads to widespread non-compliance (and informal employment) and a negative impact on employment creation. Compliance with the Labour Code is a priority in order to challenge the scale of business non-registration and undeclared work. Avoiding taxation and social security contributions creates unfair competition for law-abiding companies. Investment in education and training would also correlate positively with higher growth and productivity. Policy options include: <ul style="list-style-type: none"> <li>• increasing the duration of mandatory years of basic and vocational education;</li> <li>• an adult education drive prior to skills upgrading through ALMP;</li> <li>• more investment in ALMP;</li> <li>• easing bureaucratic obstacles to job creation;</li> <li>• reasonable tax burdens on employment;</li> <li>• social welfare measures for disadvantaged groups.</li> </ul>
<b>Norway (EEA country)</b>	Norway has restrictions on the use of temporary contracts and temporary agency work, but not on the use of part-time work. About 10 % of employees have a fixed-term contract and about 25 % work part-time. Much of the labour law regulations and the social insur-	Active labour market policy consists of measures to assist and promote active job search, strengthen skills and competencies of the unemployed, rehabilitation of vocationally disabled people and reactivation of disabled pensioners. Norway has absorbed a	Based on a statutory right for adults to primary, lower secondary and upper secondary education, and on a right of employees to unpaid leave of absence for educational purposes up to three years if they have been with the same employer the last two years. Public contributions	A compulsory national insurance scheme exists for all residents or employees in Norway. Daily cash benefits during unemployment are easing and pushing towards transitions to new jobs. The benefits are dependent upon previously earned income and require availability for any	The Norwegian labour market has been sufficiently flexible to support a growing and competitive economy with unemployment falling to very low levels, in spite of strict regulations on working hours, temporary work and dismissals. The two main areas for reform include liberali-

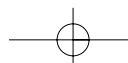




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	<p>ance in Norway apply to all these types of work, except the termination date and the working hours. If a temporary job lasts more than four years, it automatically turns into a permanent contract — with some exceptions. This reduces some of the potential differences between the different types of work contracts.</p> <p>To reduce involuntary part-time work, changes in labour law give the priority for vacant positions to workers on part-time and fixed-term contracts.</p> <p>The formal dismissal period is long for employees with high seniority and age. The 'waiting wage' given to individuals after downsizing in the public sector has been linked to reduced motivation to find new work.</p> <p>Labour market restrictions can be eased through agreements between employers, the Labour Inspection and employee representatives/union officials.</p>	<p>large influx of job-seekers. The problem of high unemployment among non-western immigrants can be viewed as a lack of flexibility in hiring and attitudes.</p>	<p>have been granted to projects aiming at developing the market for work-related education and training, internal competence development in firms and experiments with paid leave of absence for educational purposes.</p>	<p>type of work in any part of Norway, with some exceptions.</p>	<p>sation of labour law and re-design of the income support system. Liberalisation of labour law has been contentious in Norway, especially regarding temporary work and has thus far met with opposition from the unions. The issue is one of finding the right balance between opening-up employment opportunities, particularly for the less experienced, part-time and temporary workers while not undermining employment protection regulations.</p> <p>The design of income support in the case of job-loss, old age, sickness and disability is being addressed. There is a need for the system to be evaluated to ensure motivation to stay in work and incentives to find/move into new work.</p>

## 5. THE FOUR ELEMENTS OF FLEXICURITY

The concept of flexicurity is recognised as a response to the needs of both employers and workers in a rapidly changing labour market (*Joint employment report, 2005/2006*). As set out in Chapter 1, one of the concerns is that the current balance between flexibility and security in many Member States has given rise to increasingly segmented labour market. This chapter discusses the findings in the national articles under each of the four elements:

1. labour law;
2. active labour market policies;
3. lifelong learning systems;
4. social security systems.

### 5.1. Labour law

The *Annual employment report 2006* defines this element of flexicurity as:

*The development of modern labour laws allowing for sufficiently flexible work arrangements and reducing labour market segmentation and undeclared work*

The debate about this element is taken forward by the European Commission in the *Employment in Europe report 2006*, Chapter 2. Using OECD data and other research, the Commission examines the impact of employment protection legislation (EPL) across the EU. The OECD (1999, 2004) calculated a summary indicator of the overall stance of employment protection legislation as a weighted average of three sub-indicators on dismissal regulations, covering: regular employees, temporary employees and collective dismissals. The summary indicator ranges from 0 to 6 and increases with the strictness of EPL. Findings strongly suggest that EU Member States have adopted overall legal systems that provide for significantly different degrees of external numerical flexibility. Results show this variation as between 1.1 in the UK (least strict) to 3.5 in Portugal (most strict). Although strictness of EPL is shown to differ widely across the EU, the discussion in the EiE suggests that it does not seem to significantly affect total unemployment and that its impact on total employment is modest. However, it is argued that strictness of EPL may harm the employment prospects of those groups that are most subject to problems of entry into the labour market, such as young people, women and long-term unemployed people: a statement that is overwhelmingly borne out by the data on youth unemployment rates (Table 3 p. 42).

In examining and evaluating the approach and recent measures in each country, the System experts provide considerable qualitative discussion and analysis. These are some of the general points raised; they do not apply to all countries but in totality they are very relevant to the achievement of flexicurity from an EU perspective:

#### Approach

- In the newer Member States, accession and candidate countries' reform of labour market regulations have been part of the adoption of EU *acquis* requirements. Romania's new Labour Code, adopted in 2003, sets an entirely new framework for labour relations.
- Legal traditions and cultures underpin current labour law practices and the paths taken to update EPL.

#### Context

- The performance and structure of the economy impacts massively on labour law development and application, particularly in countries where SMEs, micro-businesses and self-employment predominate (e.g. Cyprus); and also in countries where companies are larger in size and more internationally oriented (e.g. Finland).
- A comprehensive and consistent body of employment rights and other legislation that fosters labour market harmony between employers and employees and that is relevant to the current economic environment is hugely beneficial to flexicurity.
- The national articles examine the roles of social partners and other key stakeholders in regulating and negotiating EPL and the impact that this has on non-standard nation-wide laws and conditions and separate occupational and local agreements. Understanding the different patterns in the scale and distribution of unionisation and employer representation across the economy is a precondition for evaluating the potential of flexicurity. In Italy, for example, the low level of unionisation is a feature of the secondary segment of the labour market, together with fixed-term contracts, lower level of EPL, intermittent working careers and lower wages. In Poland, low level of unionisation (especially in SMEs) is the reason for a fairly flexible mechanism of pay negotiations and a low number of collective agreements.

#### Barriers

- The extent to which resources and systems are available to enforce existing labour law is identified in some

**TABLE 3 → EMPLOYMENT AND UNEMPLOYMENT RATES, 2005**

Country (EU-27)	Employment rate (% of population aged 15–64) (2005)	Unemployment rate (% labour force 15+) (2005)	Youth unemployment rate (% labour force 15–24) (2005)
Belgium	61.1	8.4	21.5
Bulgaria (*)	55.8	10.1	22.3
Czech Republic	64.8	7.9	19.2
Denmark	75.9	4.8	8.6
Germany	65.4	9.5	15.0
Estonia	64.4	7.9	15.9
Greece	60.1	9.8	26.0
Spain	63.3	9.2	19.7
France	63.1	9.5	22.3
Ireland	67.6	4.3	8.6
Italy	57.6	7.7	24.0
Cyprus	68.5	5.3	14.0
Latvia	63.3	8.9	13.6
Lithuania	62.6	8.3	15.7
Luxembourg	63.6	4.5	13.8
Hungary	56.9	7.2	19.4
Malta	53.9	7.3	16.7
Netherlands	73.2	4.7	8.2
Austria	68.6	5.2	10.3
Poland	52.8	17.7	36.9
Portugal	67.5	7.6	16.1
Romania (*)	57.6	7.7	23.8
Slovenia	66.0	6.5	15.9
Slovakia	57.7	16.3	30.1
Finland	68.4	8.4	20.1
Sweden	72.5	7.8	22.6
United Kingdom	71.7	4.7	12.9
<b>Croatia (candidate country)</b>	55.0	13.6 (2004)	n/a
<b>Turkey (candidate country)</b>	46.0	10.3	19.6 (2004)
<b>Norway (EEA Country)</b>	72.4	4.6	12.00

Source: Eurostat (from *Employment in Europe* report, 2006, Annex 2).  
 Data for Norway is provided from Statistics Norway.  
 (\*) Bulgaria and Romania joined the EU on 1.1.2007.

countries as a concern (e.g. Bulgaria, Estonia and also the candidate country of Croatia); this undermines rather than supports flexibility.

there is still a lack of established and mutually beneficial agreements over temporary and part-time work and a lack of incentives for certain vulnerable groups.

- There are implications of 'gaps' in legislation and/or local collective agreements for establishing the conditions of flexibility, for example in agency work and teleworking in Lithuania. In Austria, a special care-benefit in private care services has led to a non-documented labour market served mainly by women workers from Slovakia and Poland who are paid far below the minimum wage. In Slovakia, in spite of recent reforms,
- The national articles emphasise differences across the EU in the prevailing traditions, culture and attitudes towards part-time working as a pre-condition for updating EPL. Spain and Greece, for example, are amongst the lowest countries in the EU with respect to share of part-time work. By contrast, in the Netherlands, part-time work is particularly widespread and tends not to be regarded as a non-standard form of working.

- The national articles emphasise differing perceptions of sources of labour supply (such as some groups of women, people with disabilities, older workers, minority ethnic groups and unemployed people) that are influenced by the strictness of EPL.
- There are also different degrees of sophistication in recognising the scope for flexible working and its role in modernising EPL and securing benefits for both employers and employees; this includes innovations in labour law in support of work/life balance. In Belgium, for example, a time-credit system supports work-life balance. In the UK, for employees the last decade has seen several measures to improve the flexibility of individual working arrangements to decrease labour market segmentation as well as new measures to remove discrimination in the workplace.

### Findings

With the possible exception of a small number of Member States (Denmark, Ireland, the Netherlands) where total unemployment and youth unemployment rates are below 10 %, segmentation in the labour force is clearly evidenced. Although the key factors vary between countries, the direct causes of segmentation link to the types of contracts prevailing in the labour market, strictness of EPL, and also levels of pension contribution rates and unemployment benefits.

There are also major differences between countries in how migration and EPL are managed, partly based on economic circumstances. Without the inflow of migrants, Irish economic growth would have been restricted. In Cyprus, easy access to low-cost foreign workers has moderated efforts to tap into pools of additional labour supply.

The national articles also highlight the varying approaches in place with respect to the negotiation and management of redundancies. In Sweden, in the case of collective redundancies, 'security/adjustment agreements' negotiated by the social partners aim to rapidly find new jobs for employees who have been served with redundancy notices.

A contributing factor in the discussion is the extent to which the public and private sectors in each country are covered equally by EPL and a contrast between countries is whether or not public sector EPL reform is debated or attempted. In Malta, as an example, government as a major employer is not subject to the same labour law requirements. In Denmark, labour law provisions for public sector employers are generally the same as for private sector workers with the exception of a small number of civil servants. In Ireland, attention has focused on introducing

changes to promote flexibility in public sector employment which, because of its large size, would have an impact on the wider labour market. It is suggested that some aspects of public sector employment in Austria would also be a candidate for reform.

The degree to which, across the EU, fixed-term contracts have by default become the province of the younger worker, with the older worker occupying permanent full-time jobs, is a major concern. In France, 46 % of under-24-year-olds hold atypical contracts of employment and fixed-term contracts are far from being a preliminary step towards permanent employment. In Spain, the use of temporary contracts is double that of the European average and tends to concentrate on disadvantaged groups. Another key indicator is whether, and for how many workers, participation in 'flexible' forms of employment is voluntary or involuntary. In Estonia, for example, although the share of workers in non-standard employment is low, it is often involuntary.

Evidence suggests that strict EPL does profoundly influence the labour market prospects of young people and other groups disadvantaged in the labour market including some groups of women, disabled people and minority ethnic groups. However, prevailing economic and political context, together with the close connection of other labour market factors, make the choice about 'less strict EPL' subject to high risks. The Greek example illustrates this point well.

The notion of flexicurity represents a major challenge for Greek policy planners. Flexicurity is about protecting people rather than protecting jobs and the Greek nexus of services has been geared, so far, to protect the latter rather than the former. The lowering of the (strict) employment protection may hold gains for young people and for women who currently face high risk of unemployment. However, simply lowering employment protection, while keeping conditions in other policy areas unaltered, might in fact deteriorate labour market outcomes. Therefore the distributional effects of adjusting EPL at a lower level should be closely monitored. Easing the restrictions placed upon the ability of employers to adjust their workforce and thus to control their labour costs, may hold gains and losses for different demographic groups. However since strict employment protection tends to reduce dismissals and hiring at the same time, the final impact of such a measure upon aggregate employment/unemployment cannot be predicted. Empirical evidence suggests that strict EPL reduces the employment rate of both first-time entrants (mainly young people) and prime-age women. There is also evidence, however, that those in the core labour market (mainly men aged 25–54, heads of households) benefit

from the decrease in dismissals induced by strict EPL. Thus for certain categories of the workforce, such as older workers and the low-skilled, lowering employment protection may entail risks. A proper policy mix for Greece should also rely on adequate unemployment benefits, on well-targeted activation policies and on heavy investments in human capital<sup>(12)</sup>.

## 5.2. Active labour market policies

The *Annual employment report 2006* defines this element of flexicurity as 'the development of active labour market policies which effectively help people to cope with rapid change, unemployment and spells and transitions to new jobs'.

Based on data provided by Eurostat and the LMP database (Eurostat/OECD), ALMP spending has been calculated by country as a percentage of GDP (averages 1997–2004) showing variations in spend between approximately 0.05 % to approximately 1.6 % (EiE report, 2006). The average spend is just below 0.6 % of GDP. Above average countries include Belgium, Denmark, Estonia, Germany, Finland, France, Ireland, Italy, the Netherlands, Sweden and Norway (EEA). Below average spending countries include Austria, the Czech Republic, Estonia, Greece, Spain, Hungary, Latvia, Lithuania, Luxembourg, Portugal, Slovakia and the UK.

The System experts commented on the contribution of ALMP in balancing the combination of labour market flexibility and security.

### Context

The development of active labour market policies was shown to have progressed:

- where reforms of the public employment service have been undertaken to ensure an adequate PES network which links ALMP to benefit provision and which targets improvements in activation measures. It is argued that structural reform being undertaken in Denmark will have a major impact on the organisation of Danish labour market policy. Greece has also seen major PES reform. Modernisation of the PES is planned in Spain. In France, the 2005 social cohesion law brought an end to the PES monopoly in ALMP matters. The Austrian PES (AMS) is key to Austria's flexicurity policy. It is based on a strong tripartite structure and has been instrumental in successfully targeting young unem-

ployed and long-term unemployed people. AMS also has a strong gender mainstreaming commitment;

- where European Social Fund resources have been invested in order to activate labour market policies (particularly in the case of the 12 new Member States);
- where overarching nationally agreed commitments and infrastructure were in place to innovate in workplace development, training and increased productivity. The social partnership agreement in Ireland 'Towards 2016' is an example;
- where national policies were in place to emphasise rights and responsibilities of job seekers as part of ALMP, such as New Deal initiatives in the UK;
- where ALMP responses are sensitive to regional labour market inequalities and cross-border demands for employment (e.g. Italy, Luxembourg, Austria). In Italy, the responsibility for ALMP, including the PES, was transferred from the State to the regions.

### Approaches

The national articles provide examples of different approaches to ALMP:

- differing motivations and policy objectives for ALMP such as those actively seeking occupational and geographical mobility of both unemployed and employed workers (e.g. Sweden, Ireland);
- examples of the interplay between supply and demand side approaches. The labour market in the Netherlands for example strongly emphasises supply side measures, by strengthening incentives in social security and fiscal policy. Demand side measures are largely focused on initiatives to assist with the reconciliation of work and family life;
- innovative approaches on the demand side with respect to the reconciliation of work and family life (e.g. Netherlands, Austria);
- intensive programmes offered by PES to tackle youth unemployment especially targeted at early school leavers (e.g. Austria) and also graduates (e.g. Hungary);
- personalised services with individual search and training plans, more customised than previously (such as in the UK, Finland, France, Slovakia);

(12) Dimitris Karantinos, Contribution to EEO Review 2006 'Flexicurity'.

- re-integration programmes arising from restructuring (e.g. Belgium).

### Barriers

The main barriers to ALMP were identified:

- where the lack of information and knowledge about training courses on offer or potentially on offer (e.g. Latvia), and insufficient data on good practice, were obstacles to both designing and accessing ALMP;
- where inadequate monitoring and evaluation means that there was no reliable basis for ensuring continuous development and learning, and performance management. In the Czech Republic, for example, little is known about the effectiveness of existing ALMP although this is being recognised by policymakers. In Estonia, no monitoring and evaluation system for ALMP is in place. The Austrian PES demonstrates good practice in monitoring. It has clear targets which are closely monitored on federal, regional and local levels.
- where obstacles existed to design ALMP particularly for vulnerable groups in national situations with a lack of flexibility to hire.

### Findings

The national articles emphasised the considerable interest in devising ALMP and 'activating' existing policies even in countries where the institutional and policy infrastructures were subject to debates about reform. The desire for better integration and more 'activation' of ALMP was apparent both in relation to tax incentives on the demand side and benefit disincentives on the supply side. However, to reflect specific national circumstances, there were differing approaches to success and efficiency by introducing tighter sanctions and other measures to ensure compliance (as in the reform of ALMP in Estonia described below). Other recent measures include the contributions to ALMP in some countries of temporary work agencies (e.g. Germany) and private sector providers (e.g. the Netherlands, France) especially in the context of placing unemployed workers. There continues to be clear evidence about ALMP not sufficiently reaching groups most in need; however, national articles also emphasise the resource intensity of targeting the long-term unemployed and most vulnerable workers in the labour market (e.g. Finland).

### Reform of ALMP in Estonia

In 2006, a reform of active labour market measures was undertaken to support transition to employment and provide monitoring and sanctions for non-compliance with the benefit rules and/or job search requirements. One strand of the reform is a new set of active labour market policy measures targeted specifically at groups disadvantaged in the labour market (e.g. disabled people, young unemployed and long-term unemployed people). The second strand is a launch of more supportive structures for unemployed people. An individual approach and case management system are adopted whereby, for every unemployed individual, a job-search plan will be set up. This facilitates identifying the most vulnerable unemployed, for whom more intensive services are offered to prevent long-term unemployment. Case managers are responsible for monitoring the progress in the job search plan. Finally, the reform also introduces sanctions and penalties if the individual refuses a suitable job, does not participate in active labour market measures or does not comply with a personal job search plan. In such cases, unemployment assistance can be temporarily withdrawn or even cancelled<sup>(13)</sup>.

## 5.3 Lifelong learning systems

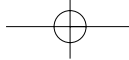
The *Annual employment report 2006* defines this element of flexicurity as: 'the development of reliable and responsive lifelong learning systems to ensure the continuous adaptability and employability of workers'.

The APR states that participation in lifelong learning varies considerably across countries, largely reflecting the lack of a comprehensive approach in a number of Member States. The average lifelong participation rate in the EU of 10.8 % in 2005 is largely due to the good performance of a few countries including Denmark, Finland, the Netherlands, Sweden, Slovenia and the UK. This range is reflected in the national articles provided by the System experts; the new Member States in particular are concerned about the need to increase lifelong learning infrastructure and participation and many reforms are planned.

### Context

The national reports highlighted the importance of overarching national frameworks and strategies for enhancing

(13) Reelika Leetmaa, Contribution to EEO Autumn Review 2006 'Flexicurity'.



skills development and lifelong learning (e.g. Ireland, the UK, Sweden); as well as for achieving high-quality training courses and outcomes. Who pays for training was a key question in the development of national strategies for lifelong learning. In France, a major policy initiative is an individual right to training although this tends to benefit those already in employment. A draft lifelong learning strategy is under consideration in Cyprus.

Concerns were raised where the education system itself was in need of reform and where formal and non-formal education systems were not well integrated. The Lithuanian national article notes that significant reforms are being implemented to adjust the whole education system to the concept of lifelong learning. By contrast, in Belgium, lifelong learning policies have concentrated in particular on investments in formal education in order to reduce barriers to learning. The Turkish national article emphasises the need to extend and enhance the compulsory education system in Turkey (candidate country).

In some countries, a greater understanding was required of occupations and qualifications in order to promote better understanding of choices and to increase the status of certain occupations (in the wider context of the EU).

Key reforms encouraged employer participation in the provision of training (through subsidies and incentives to employers for example). Recent policy developments in Greece include the setting-up of a special account to utilise part of the employer's contributions exclusively for training. In Spain too, a benefits scheme is in place, since 2004, whereby enterprises obtain subsidies and credits to promote training programmes for workers. The consolidation of nationally accredited qualification frameworks is part of reforms in many countries, for example in Slovenia.

Some new Member States were concerned that their education and training systems needed to focus more on the continuous learning and adaptability of workers and employers.

### Barriers

The main barriers to developing lifelong learning systems were in countries where information about learning needs are poor where the learning infrastructure is outdated and there is a lack of specialised staff. Systems to validate knowledge and skills particularly informal learning or work based learning were under-developed in some parts of EU.

Issues were raised about different divisions of responsibilities (budgets and delivery) for education and vocational training; clearly there are many reasons for different systems in the Member States and any evaluation would

need to take account of varying historical and legal contexts. Tackling unemployment, especially for disadvantaged school leavers, raises issues about the transition between school and work and cross-departmental working is sometimes seen as a barrier. However, approaches and cultures are very different and, in Denmark, social partners largely administer training for the employed and unemployed in spite of different departments formally taking the lead for budgets and delivery.

Employer participation in all aspects of training (needs assessments, provision, funding, and evaluation) was a cause for concern particularly where this was fragmented or episodic (e.g. Bulgaria). Companies' participation in training is also low in Italy although higher for white collar workers rather than blue collar workers.

The issue was also raised about workers on flexible contracts being unable in certain circumstances to get access to training (e.g. Slovenia).

### Findings

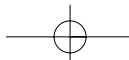
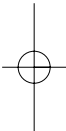
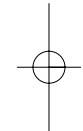
Considerable debates were taking place across the EU about the need to establish or reform lifelong learning strategies. Improvements to systems, both strategies and measures, were noted in the majority of countries. The extent to which employers are involved in paying for and providing training varies hugely across the EU.

EU Structural Funds are key resources, especially for the new Member States to fund reforms to education and vocational training.

Measures include, for example, experiments with paid leave of absence for educational purposes; as well as examples of unpaid leave of absence for educational purposes (e.g. EEA country: Norway). Developments also include measures to encourage a more even distribution of work, caring and education over the lifecycle (e.g. the Netherlands, Sweden). Validation of learning was a significant area of reform including the validation of informal and workplace learning (see examples from Greece and Slovenia).

Concerns were noted where lifelong learning systems did not reach the most vulnerable groups of workers and unemployed people. It was recognised that a well structured and high-quality lifelong learning system would in itself generate demand, both from employers, employees and unemployed people.

Lifelong learning is overall a weak element in terms of helping to secure the optimal combination of labour market flexibility and security, particularly for young people



and other disadvantaged groups in the labour market. There appear to be only a few good practice examples (e.g. Denmark, and Sweden) where the links between lifelong learning and ALMP are emphasised.

#### Improvements in lifelong learning in Slovenia

The educational system and lifelong learning improved remarkably in the past years in Slovenia. Lifelong learning is widespread by international comparisons. Although the participation rates in education and training falls with age, lifelong learning has an important role in the Slovenian economy. Young people also stay longer in tertiary education. One element of success is the introduction of a validation and certification system where people can acquire vocational qualifications through an assessment and certification of their previously acquired knowledge and experience. Although still in its infancy, the system has started to produce results. However, further improvements in lifelong learning are needed to widen access to training for workers in flexible forms of employment<sup>(14)</sup>.

## 5.4 Social security systems

The *Annual employment report 2006* defines this element of flexicurity as: 'the development of modern social security systems which combine the provision of adequate income support with the need to facilitate labour market mobility. This includes the removal of all restrictions on the mobility of workers within the EU.'

The *Employment in Europe* report states that, as with EPL, large cross-national variations exist in the size of transfer in the form of benefits to the unemployed. The OECD calculates indicators of average replacement ratios of unemployment benefits for a number of Member States which shows a wide spectrum with the Netherlands, Denmark and Belgium with more generous levels and Greece and the UK being the least generous.

### Findings

The national articles highlighted that reforms are taking place in several countries to improve the management of unemployment benefits, the levels at which benefits are paid and the obstacles to job entry that may be present in benefit 'traps' (e.g. Belgium); many experts recognised that fragmented and complex systems were in need of simpli-

fication and greater transparency; wholesale reviews are in place in many countries that combine debates about benefits, taxation systems and levels, the minimum wage, benefit traps and integration with ALMP.

Concerns about social security systems were expressed in many national articles because of the existence of welfare traps (e.g. Czech Republic). Systems that differentiate between benefit recipients because of either their insurance eligibility or type of benefit received were also causes for concern (e.g. Estonia).

Coverage of different population groups shows both variation and concern especially for the low paid, self-employed and categories of unemployed people (especially new entrants). Often, it is the most vulnerable workers and their families who are excluded from social protection systems as a result of their involvement in undeclared work.

Pension reforms are also raised in the national articles again highlighting different conventions and systems that further differentiate between categories of workers and unemployed people.

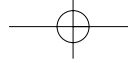
The provision of disability benefits is a priority concern for many countries (e.g. the UK). High levels of expenditure on disabled people and implications for reducing the potential pool of labour are being examined in some countries. The response is to examine eligibility criteria and also the availability of suitable job positions and employer recruitment behaviour.

The national articles contain information on innovative instruments to manage economic change and labour market transitions (see the example from Germany below); these include early notification and intervention measures and an emphasis on *preventing* redundancy.

Although much-needed reforms of social security systems are underway in many Member States, there is still considerable scope to improve social protection and reduce welfare traps especially for the most vulnerable workers and families. Different issues face different groups of workers depending on their circumstances (trying to find a first job, coping with a disability, returning to work from having a family, facing redundancy, nearing retirement). The challenge for flexicurity suggests that different combinations of legal instruments, active labour market and social protection measures are required in different national and individual circumstances.

(14) Mirosljub Ignjatović, Contribution to EEO Autumn Review 2006 'Flexicurity'.





The massive outplacement from eastern German companies after unification brought the idea of transfer workers to job creation companies which provided both job security and training during the transition phase. In parallel, the instrument of 'structural short-time work' was used mainly in western Germany to reduce labour market risk of company closures. Transfer short-time work, as it has been called since the Hartz reform, should raise the flexibility of labour by reducing labour market risks.

An extensive outplacement business grew in Germany. Big companies and HR consulting businesses developed the transfer company as one of the major restructuring instruments in the course of the rapid decline in manufacturing employment. The transfer company is based on the foundation of a follow-up company taking over the staff of a business which will be closed. Using unemployment benefits and other public transition subsidies, the transfer company guarantees incomes for a limited period and provides outplacement services to staff<sup>(15)</sup>.

- for most countries with a high unemployment rate (above 8 %) a comprehensive policy reform and shift from protecting jobs to protecting people is required to address the challenges (Belgium, Greece, Germany, Finland, Spain, France, Latvia, Lithuania, Poland, Slovakia, as well as Bulgaria and the EU candidate countries Croatia and Turkey).

Reform priorities for each of these broad country groupings are discussed in more detail below.

### Low unemployment rate

It is interesting that countries where the unemployment rate is relatively low (below 6 %) also have labour markets relatively flexible in international comparisons, which allow a more responsive worker and enterprise adaptation to changing economic circumstances and ensuring employment security. Ireland provides an interesting example of social partnership process (see box) that underpins workplace developments.

The main focus in these countries is continuing to invest in and improve the quality of lifelong learning and participation in education and training. For example this is a key issue in negotiations between social partners in Denmark. The emphasis in Ireland is on the private sector which it is suggested needs to be engaged in facilitating access to lifelong learning for their employees. Modernising the lifelong learning system in Austria requires a more comprehensive strategy as well as more funds, with clear targets and close monitoring. The challenge facing the UK highlights the need to increase productivity; the skills deficit facing the UK is a major barrier and under-investment in human capital is an important issue to tackle.

Another important priority in these countries is the reform of social security systems where change is needed especially to provide more incentives to enter employment. This is the case in Austria where the system is fragmented and links between the tax system, social security contributions and benefits need to be strengthened. In the Netherlands, it is suggested that a key question is whether more restrictive benefit regimes and supply side measures foster job creation. In the EEA country Norway, the redesign of the income support system is a priority necessary to encourage moves into, and staying in, employment.

In countries such as Austria and Cyprus, a reform of rigid contractual arrangements in the public sector is necessary to increase its flexibility and productivity. Here, the struc-

## 6. PRIORITIES FOR REFORM AND AREAS FOR FURTHER DEVELOPMENT

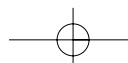
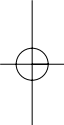
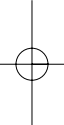
Table 2 also summarises the main priorities identified in the national articles to maximise the optimal combinations of flexibility and security.

Three groupings of countries by unemployment rate can be identified for the purposes of analysing priorities (see also Table 3):

- countries with a relatively low unemployment rate (below 6 %), where the main priorities are to maintain the existing relatively flexible labour market and to increase and improve investment and participation in lifelong learning (e.g. Denmark, Ireland, Cyprus, Luxembourg, the Netherlands, Sweden<sup>(16)</sup>, Austria and the UK, as well as the EEA country Norway);
- countries where the unemployment rate is in the medium range (6–8 %) have wider priorities across all the four elements of flexicurity, but where the area of reforming contractual arrangements predominate (the Czech Republic, Estonia, Italy, Hungary, Malta, Portugal, Slovenia as well as Romania);

(15) Kurt Vogler Ludwig, Contribution to EEO Autumn Review 2006 'Flexicurity'.

(16) Compared to 7.8 % for 2005, the unemployment rate for Sweden 2006 is 5.4 % and in January 2007 5.3 %; as relying on one year (2006) only is arguably misleading in this instance, Sweden is placed in the low unemployment rate group.



tures of rewards, incentives and penalties need to be re-examined and re-designed. Finally, countries with low unemployment also face country-specific issues that should be addressed. For example, a restructuring of Danish labour market institutions is taking place to strengthen the role of local authorities and improve the cooperation and efficiency of different actors. For Norway (EEA country), the main challenge is to find a balance between liberalising the labour market and opening up more employment opportunities whilst at the same time not undermining employment protection.

#### Ireland's social partnership process

Ireland's social partnership agreements are unique. The Department of the Taoiseach (Office of Prime Minister) is responsible for the overall negotiations and implementation of the agreements of which there have been seven to date including the current agreement — 'Towards 2016 — ten-year framework social partnership agreement, 2006–15'. Each of the seven social partnership agreements since 1987 — which are focused principally on incomes, fiscal, social, economic and competitiveness policies — have been negotiated between the government and the social partners. The latter are organised into four pillars as follows:

- trade union pillar;
- business and employer pillar;
- farming pillar;
- community and voluntary pillar (included for the first time in negotiations on Partnership 2000).

The negotiations on each of the social partnership agreements were preceded by the production of frameworks agreed under the auspices of the National Social and Economic Council (NESCE).

The key objectives for social partnership are:

- to provide advice to the government on social partnership and related policy issues;
- to support the process of social partnership in a series of agreements between the government and the social partners, and to maintain and develop social dialogue;

- to support dialogue at national level aimed at ensuring industrial relations peace and stability;
- to support partnerships in the public and private sectors aimed at modernising the workplace and improving performance and service delivery;
- to promote social dialogue at EU level in line with the Lisbon agenda.

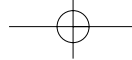
The social partnership process has transformed the industrial relations environment in Ireland. Prior to social partnership, an annual average of over 317 000 days were lost through industrial disputes in the 1980s, compared to less than 27 000 days in the whole of 2005. Over the same period the total at work almost doubled<sup>(17)</sup>.

#### Medium unemployment rate

Countries with a medium unemployment rate face a much wider reform agenda, with all four flexicurity elements demanding urgent attention and development. Foremost in countries such as Estonia, Hungary and Malta, further liberalisation of contractual arrangements and increased promotion of flexible employment forms should take place. In contrast, Italy, Portugal and Slovenia face a different challenge in relation to contractual arrangements. In Italy and Slovenia, an improvement in the social protection of workers in flexible forms of employment is desired to reduce segmentation. A harmonisation of benefits and rights between different types of workers would be extremely beneficial in improving career prospects and the financial situation of workers on flexible contracts. In Portugal, where flexible employment forms are widespread, a key challenge is to introduce more flexibility into permanent contracts in order to limit the abuse of flexible employment forms.

Another major priority in countries with a medium-range unemployment rate is to reform their social security systems. This is the case in the Czech Republic, Estonia, Hungary and Malta as well as Romania (which joined the EU on 1 January 2007). In some countries, the system needs to provide more activation incentives for unemployed people and other target groups to facilitate their entry into employment (the Czech Republic). Otherwise, reform priorities are rather country-specific. It is suggested that Estonia should ensure a better income protection for unemployed people; and Hungary needs to address the challenge of high minimum wage hindering job creation. In

(17) Andrew Brownlee, Contribution to EEO Autumn Review 2006 'Flexicurity'.



the new Member State of Romania, the mandatory social protection scheme should be consolidated in order to be more sustainable and robust.

Increasing participation in lifelong learning and improving its quality is an area requiring urgent attention in several countries. This is a challenge in the Czech Republic, Estonia, Portugal and Slovenia, where more people should be encouraged to participate in continuous vocational education and training, which should meet the demands and needs of modern workplaces. It is suggested that increasing investment in human capital should become an important policy priority in order to improve the employability and adaptability of people both in and out of work.

The reform of ALMP has been identified as a policy priority in three countries with a medium unemployment rate (the Czech Republic, Estonia and Romania — one of the new Member States). Emphasis is placed not only on increasing expenditure on ALMP, but also on improving effectiveness and efficiency. It was identified that an essential ingredient for the developing of ALMP was a comprehensive monitoring and evaluation system.

Finally, for some countries (e.g. Malta and Slovenia) a building of partnership between the key stakeholders is required. Only a working partnership model would enable discussion and agreement on the nature and direction of reforms required to maximise the benefits of flexibility and security. Partnership building is essential in these countries to ensure the effective implementation of reforms.

### High unemployment rate

Countries where the unemployment rate is high (above 8 %) face considerable challenges to foster job creation and increase employment. Indeed, for some a wholesale policy shift, not least a change of policies from protecting a job to protecting a person, is recommended to address the existing problems in the labour market. This is the case for Greece, France, Spain, Latvia and Lithuania. Here, reforms in all four elements of flexicurity model are required.

Redesigning contractual arrangements requires urgent attention in many countries affected by high unemployment. For some countries, reforms should increase the use of flexible work forms and ease employment protection (e.g. in Belgium and Germany but also in one of the newest Member States, Bulgaria, and the EU candidate countries Croatia and Turkey). In other countries, the rights and benefits of flexible workers should be equalised with those on standard contracts (Poland); a single contract of employment and harmonisation of different employment statuses should take place (France); and

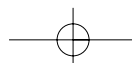
more incentives should be adopted to encourage open-ended contracts (Spain).

Increasing investment and participation in lifelong learning is also highlighted as a priority area in many countries with high unemployment (Belgium, France, Lithuania, Poland and Slovakia, as well as Bulgaria and the candidate countries Turkey and Croatia). Reforms of professional training need to deliver benefits to the most vulnerable groups in the labour market (France); the learning system needs to be reformed to meet the needs of employers and employees and thus improve its quality (Lithuania); financial incentives for training should be provided in Poland and Slovakia; more priority should be given to developing fully-fledged lifelong learning policies in the new Member State Bulgaria and the candidate countries Croatia and Turkey.

Social security systems should also be reformed as a matter of priority in order to achieve a better balance between flexibility and security. In Germany, this is about combining the increase of unemployment benefit with labour market flexibility. In Belgium, Spain, Lithuania, Poland and Slovakia there is a need to better coordinate ALMP together with the provision of unemployment benefits and social security assistance, thus creating better incentives for activation. Spain (and also the candidate country Turkey) need to intensify protection mechanisms for unemployed people. In France, access to social protection should be disconnected from the status of employment. In Slovakia, the adequacy of the social security system should be carefully monitored, particularly in relation to vulnerable groups.

Reform of ALMP should also receive urgent policy attention in very high unemployment categories such as Poland (and also the candidate country Turkey). It is argued by experts that ALMP should receive a significant expenditure increase and that public employment services require fundamental improvements. In other countries, it is suggested that reforms should provide more targeted and specific solutions. In Slovakia, for example, ALMP for disadvantaged groups should be intensified. Similarly, ALMP should be restructured in the new Member State Bulgaria so that low qualified people have protection, knowledge and skills to support their transitional flexicurity.

Finally, changes to the nature and intensity of social dialogue are required in several countries (in France, Lithuania, as well as in the candidate country Croatia) to take forward flexicurity reforms. In France, social dialogue should be reformed to achieve a more balanced representation at the workplace level beyond the five big trade unions. Trade unions here should also be more systematically involved in designing and developing employment policies. In Finland, it is expected that a strong tripartite



model will be able to respond to the challenges facing the labour market.

In conclusion, the overview of reform priorities identified in the national articles shows certain common issues facing EEO countries. An overarching priority for balancing flexibility and security, occurring in the majority of EEO countries, is the need to increase participation in education and training and improve the quality and effectiveness of lifelong learning systems. Investment in human capital is the priority requiring urgent action to increase adaptability and employability of people and thus support transition between jobs. More and better lifelong learning, however, has to be backed by appropriate contractual arrangements and rigorously designed and effective ALMP, well-integrated and interactive with social protection mechanisms.

## 7. CONCLUSIONS

The System experts' national articles provide evidence that a better combination of flexibility and security relies on the interplay of four elements: state of the economy, political priorities, options for social partnership and negotiation.

The diversity of national circumstances across the EU is clearly demonstrated through the national articles. Diversity is present in terms of economic and political context, legal infrastructure, institutional culture and their impact on the four elements.

Overall, the weakest element across the EU is lifelong learning. The high levels of youth unemployment throughout the EU (Table 3) show the poor transition from school to work and question the quality of education and training.

The national articles illustrate that young people and other vulnerable groups face poor flexicurity in the labour market.

The national articles identify many innovative flexicurity measures. But few countries demonstrate that strategies or reforms are in place to steer flexicurity that goes well

beyond a legal framework. National articles suggest that the best combination of flexibility and security requires strategic developments and capacities that closely combine, negotiate and tailor the four elements to national circumstances.

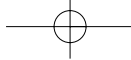
The Danish model fits the picture of a possible positive interplay between a very flexible employment relation and a social protection system combined with active labour market programmes, which defends the individuals from the potentials costs of a low level of employment security. However, it is pointed out that the Danish model of 'flexicurity' itself is the outcome of a long historical process involving a series of negotiations and compromises between the social partners, the evolution of the welfare state and — in recent years — a gradual development of a more active profile of labour market policy. Adaptations in the 'flexicurity balance' of different countries may therefore require more than changes in policy approaches, but indeed more wide-ranging changes in deep-seated cultural and institutional traditions, which will take longer to achieve and require the participation and buy-in of all parties involved. In addition, it must be borne in mind that flexicurity approaches such as the Danish model are 'expensive' in terms of expenditure on ALMP, particularly at times of economic downturn, although of course expenditure on ALMP has to be balanced against savings relating to the cost of unemployment and high levels of social exclusion.

The national articles show that many countries are undertaking labour market reform. Some reform is directly linked to EU *acquis* regulations or triggered because of access to EU funding. Although not driven by flexicurity per se, the key flexicurity debates are often present. Arguably, reform will result in better conditions for flexicurity measures as attention is being given to structural problems. For example, where the need for reform is identified, the national articles point to issues such as poor labour law enforcement, weak monitoring and evaluation of ALMP, lack of strategy for lifelong learning, and undesirable welfare disincentives and traps.

The national articles provide complementary information to the analysis contained in the *Employment in Europe* report, 2006, Chapter 2. Five flexicurity/labour market systems<sup>(18)</sup> were identified in this chapter based on strictness

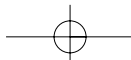
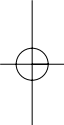
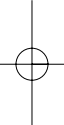
(18) The five clusters are characterised as follows:

- the Anglo-Saxon system comprising the UK and Ireland - a high degree of flexibility, relatively low security and low taxation;
- the continental system including Germany, Belgium, Austria and France - intermediate-to-low flexibility, intermediate-to-high security and intermediate-to-high taxation;
- the Mediterranean system including Spain, Portugal and Greece - low flexibility, relatively low security and no clear pattern on taxation;
- the eastern European (plus Italy) system including Italy, Poland, Hungary, the Czech Republic and Slovakia - insecurity, intermediate-to-high flexibility, and intermediate-to-high taxation;
- the Nordic system including Denmark, the Netherlands, Sweden and Finland - high security, intermediate-to-high flexibility, and intermediate-to-high taxation.



of EPL, expenditure on ALMP, percentages of participants in lifelong learning programmes and average tax wedge. The national articles raise additional issues and questions which could influence the pathways that countries choose to take in maximising flexicurity and there is considerable scope for further debate and exchange of experience.

The national articles emphasise the importance of involving all stakeholders in the debate on flexicurity at all levels; a full understanding of good practice is also required: what makes good flexibility and security combinations work, and whether they are transferable.



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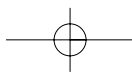
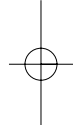
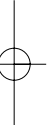
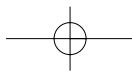
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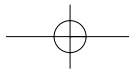
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