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# Flexicurity in the European Union: Flexibility for Outsiders, Security for Insiders \*

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## Abstract

Flexicurity is at the heart of European policy debates. Its aim is to overcome the tensions between labour market flexibility on the one hand, and the provision of social security for workers on the other hand. To date, there is little insight into whether flexicurity policies have been adopted across the European Union. Therefore, the aim of this paper is to analyse to what extent labour market policies have been reformed along the lines of the flexicurity concept across 18 European countries over the period 1985-2008. Focusing on the main axes of the flexicurity concept, new datasets are used to examine changes in employment protection legislation, unemployment benefits and active labour market policies. Data on the strictness of employment regulation indicate that reforms have been influenced by labour market insiders, since the level of flexibility has been increased more for temporary employment, the labour market outsiders, than for regular employment, the insiders. Although gross unemployment replacement rates suggest that unemployment benefits have become more generous, net replacement rates indicate that the level of income security from benefits actually has been decreased. Moreover, data illustrate that larger shares of European labour forces have temporary contracts. As such, the gap between insiders and outsiders on the labour market has been increased. This development is contrary to the goals of the European Commission.

JEL-codes: H53, J08, J58

Keywords: Flexicurity, insider-outsider theory, labour market policy, welfare state, political economy

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## 1. Introduction

The flexicurity strategy is at the heart of the European debate about reforming social security. At the European Union (EU) level, the concept is integrated in the European Employment Strategy, which is aimed at increasing employment and reducing unemployment in EU countries. The European Employment Guidelines of 2001 already stated that flexibility and security should be raised simultaneously, and flexicurity was put explicitly on the agenda of the European Council in Brussels in 2006. In line with the Lisbon agenda, flexicurity has been proposed as a promising reform concept for enhancing Europe's economic growth and social cohesion (e.g. EC, 2006; EC, 2007a; EC, 2007b; Boeri e.a., 2007). On the one hand, more flexible labour markets would reduce the costs of firms to adjust to the dynamics of the highly integrated global economy, improving Europe's competitiveness. On the other hand, increased labour participation and higher income security would contribute to higher levels of social inclusion. As such, flexicurity is also explicitly integrated in the Europe 2020 strategy and it is expected to contribute to the achievement of its objectives (EC, 2010). Moreover, the flexicurity strategy is aimed at diminishing the segmentation of labour markets, where relatively protected and unprotected employees coexist.

Following the significant attention for flexicurity in policy debates, the amount of academic work on this theme has also started to grow (Wilthagen and Tros, 2004; Boeri e.a., 2006; Schmid, 2006; Viebrock and Clasen, 2009). In the initial phase, the literature on flexicurity has been mainly conceptually and theoretically oriented. Remarkably, there is relatively little empirical research on flexicurity. Only recently, the first case studies on the adoption of flexicurity policies have been published (e.g. Bonoli and Emmenegger, 2010). Still, besides the typical examples of Denmark and the Netherlands, which have been extensively discussed in the policy documents and the conceptual literature, there is little insight into what extent flexicurity policies have been adopted in other European countries.

Therefore, the aim of this paper is to analyse to what extent labour market policies in EU countries have been reformed along the lines of the flexicurity concept. There is no universal definition of flexicurity (Viebrock and Clasen, 2009), but two central elements of the concept can be distilled. First, flexicurity refers to a configuration of labour market policies that aims to complement labour market flexibility with economic security. This static conceptualisation of flexicurity, as a state of the labour market, is discussed in section 2. Second, flexicurity refers to a strategy to reform labour market policies. Employees with permanent contracts are usually more protected and better organized than employees with temporary contracts. Therefore, the first group of employees, who are called insiders in the political economy literature, is better able to influence labour market policy reforms than the latter group, the outsiders. Since flexicurity concerns a package of policy reforms rather than a single labour market policy, it is proposed to overcome opposition from insiders in policy reform processes. This dynamic element of flexicurity will be conceptualized in section 3. In the empirical part of the paper, section 4, labour market policies will be compared across countries and over time. The recent publication of new data on labour market policies by the OECD (2012) and by Van Vliet and Caminada (2012) enables us to examine whether countries have started to adopt flexicurity policies since the beginning of the 21<sup>st</sup> century. Building on the comparative political economy literature on labour market policy reform, the differences in labour market policies concerning insiders and outsiders are analysed. Many of the labour market arrangements that are relevant for the flexicurity concept are regulated by sector specific collective agreements (Houwing, 2010). However, because the availability of data on decentralized labour market arrangements is too limited for the empirical approach of the paper, a comparison of 18 EU countries for the period 1985-2008, the analysis is focused on labour market institutions which are measured at the country level. Section 5 concludes the paper.

## 2. Flexicurity as a static concept: state of the labour market

The main characteristic of flexicurity is that it is intended to overcome the tensions between labour market flexibility on the one hand, and the provision of social security for workers on the other hand (Viebrock and Clasen, 2009). Flexible labour markets can be seen as beneficial for job creation, especially during periods of recovery after recessions, but they generally imply lower levels of economic security. Welfare state programmes provide economic security, but they can have adverse effects, such as longer unemployment spells and therefore higher public expenditure and less mobility on the labour market. In the flexicurity concept, flexibility and security are viewed as complementary.

In the literature, the term 'flexicurity' has been used to refer to different configurations of labour market policies, in which several types and degrees of flexibility (external-numerical and internal-numerical flexibility, functional and wage flexibility) and security (job, employment and income security) have been stressed (Wilthagen and Tros, 2004; Madsen, 2007; Viebrock and Clasen, 2009). This ambiguous nature of the concept has also been a source of criticism, as different interpretations and views on labour market policies are ranked under the concept of flexicurity (Burroni and Keune, 2011). In the often-mentioned textbook cases of flexicurity policies, namely those in Denmark and the Netherlands, there is variation too. The Danish model of flexicurity builds on the combination of flexible labour markets, generous unemployment benefits and a strong emphasis on activation. This combination is known as the 'golden triangle'. The Dutch flexicurity model is more centred on combining non-standard work, such as temporary agency work and part-time work, with regular social security rights (Viebrock and Clasen, 2009). Because the Danish model is the most common example to illustrate the concept of flexicurity in the literature and in EU employment guidelines and policy documents (e.g. European Commission, 2006) we focus on the labour market policies of the Danish type of flexicurity.

The Danish model is a combination of three types of labour market policies. First, employment protection legislation (EPL) that is relatively loose provides flexibility for firms in terms of the hiring and firing of workers. This is compensated by a rather generous social safety net for the unemployed through unemployment benefits, which is the second element, income security. Indeed, the exchange between employment protection legislation and unemployment benefits can be regarded as the main axis of flexicurity. Economists usually concentrate on the trade-off between unemployment benefits and employment protection since unemployment benefits and employment protection could be considered as substitutes (see e.g. Blanchard and Tirole, 2004; Blanchard and Tirole, 2008; Boeri et al., 2006).<sup>1</sup> Third, flexicurity involves strong efforts on active labour market policies (ALMP). These policies are aimed at increasing labour market participation through programmes such as labour market training, services of employment agencies and subsidised employment. When low employment protection leads to more dismissals, the mobility on the labour market will be greater when the skills of the unemployed are improved by labour market training. Thus, transitions from unemployment to employment can be made easier, leading to more employment security. As a result, job security is replaced by employment security, which is a central feature of the flexicurity concept.

Flexicurity policies are expected to improve the functioning of European labour markets, but the effects of less employment protection, more generous unemployment benefits and higher expenditure on ALMPs are not clear. Although high levels of employment protection lead to slower job creation owing to higher labour costs and therefore to longer unemployment spells, loosening employment protection may also have some drawbacks. An economic advantage of employment protection is for instance that investments in firm-specific human capital are higher. Another advantage is that firms internalise to some extent the external effects of un-

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<sup>1</sup> In theory, unemployment insurance and employment protection could be considered as substitutes. We realize that there are considerable differences in conditions, design and incentives in practice.

employment benefits. Hence, making firing more costly to employers reduces the layoff rate and unemployment incidence. Similarly, increases in the generosity of unemployment benefits may also have contradictory effects (Baily, 1978). On the one hand, more generous unemployment benefits reduce the incentive to search for new jobs and therefore lead to higher unemployment levels. On the other hand, longer job searches may lead to better matches on the labour market and therefore to more productive economies. With respect to ALMP, there is a lively debate going on about the effectiveness of those programmes (Kluve, 2010; Card et al, 2010). Positive effects on transitions from unemployment to work have been found for employment services and private sector incentive programmes. However, even if ALMPs are effective, it is questionable whether the benefits offset the costs, such as displacement effects, lock-in effects and the tax burden.

### **3. Flexicurity as a dynamic concept: a reform strategy**

Reforms of labour market institutions such as unemployment benefits and dismissal protection can be understood with the insider–outsider approach (Lindbeck and Snower, 2001), that has gained importance in the political economy literature. In this view, a labour market consists of two segments. The core segment consists of insiders who are defined as incumbent workers who enjoy more privileges than the outsiders at the margin, the rest of the labour force. Although insiders can differ from outsiders in many ways, insiders can generally be conceptualised as employees with permanent contracts who are labour union members, whereas outsiders are workers with fixed-term contracts who are not represented by labour unions.<sup>2</sup> This disparity between insiders and outsiders exists because firms incur labour turnover costs. These costs are the costs of hiring, firing and providing firm-specific training. It should be noted that the firing costs are largely determined by the rigidity of the EPL. Because of the labour turnover costs, employers give the insiders market power, that the insiders use to get wages above the market-clearing level (Lindbeck and Snower, 2001).

Insiders can be expected to object to reductions of employment protection on regular contracts, because that would lead to less job security for themselves. Moreover, less employment protection could also imply that insiders have to accept lower wages owing to less bargaining power in wage negotiations (Lindbeck and Snower, 2001). Hence, it could be argued that trade unions will challenge reform proposals targeted at permanent contracts and that they will agree with policy-makers upon making temporary contracts more flexible instead. However, deregulation of the hiring of non-standard workers gives them a stronger position relative to standard workers in the competition for jobs. This tends to undermine insiders' privileged position in terms of wages and working conditions in the long run (Eichhorst and Marx, 2011). Therefore, trade unions have a motivation to object to reforms of EPL concerning both permanent and temporary contracts, whilst they would still prefer marginal over general flexibilisation (Eichhorst and Marx, 2011).

Empirical evidence from Allan and Scruggs (2004) indicates that corporatism is positively associated with the levels of unemployment benefits. Swank (2011) examines the impact of corporatism on the spending on unemployment benefits as well as on unemployment replacement rates and he finds for both measures a positive impact of corporatism. Regarding ALMPs, Swank (2011) finds that political-economic institutions of (sector-) coordinated capitalism are positively related to ALMP expenditure. In line with these results, Van Vliet and Koster (2011) find a positive effect of the presence of tripartite councils on spending on ALMPs. With respect to EPL, Emmenegger (2011) finds that a strong labour movement is a

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<sup>2</sup> Within the group of insiders there is variation too. Pfann and Palm (1993) found that non-production workers face better protection than production workers owing to higher hiring and firing costs for non-production workers. Pfann (2006) shows for the Netherlands that older employees with longer tenures and higher wages enjoy better employment protection than other employees.

determinant of high levels of EPL.<sup>3</sup> It is not clear, however, whether this effect stems from labour unions or from left-wing political parties, since the employed index comprises both. Rueda (2007) examined the variation in job security regulation across countries and over time, but he did not report a clear effect of corporatism. One explanation for these mixed results from an empirical viewpoint could be that these studies did not account for the differences in EPL regarding workers with permanent or temporary contracts. It has been well documented that reforms aimed at flexibilisation have regularly resulted in two-tier reforms, in which the employment protection for temporary contracts has been reduced, while the employment protection for permanent contracts has remained unchanged (Saint-Paul, 2004; Boeri and Garibaldi, 2007; Ochel, 2008). Since insiders are organised in trade unions that have direct access to political decision making, for instance in bi- or tripartite councils, they can challenge reform proposals. As a consequence, policy makers have opted for reforms of the least organised part of the labour markets.

In contrast, flexicurity conceptualised as a strategy to reform labour market policies is supposed to provide a package of policy reforms for the labour market as a whole instead of only targeted at the margin. Because the package consists of increasing flexibility and security simultaneously, lower levels of employment protection for insiders can be compensated with more generous unemployment benefits and higher expenditures on ALMP (EC, 2006; EC, 2007a; EC, 2007b; Boeri e.a., 2007; Wilthagen and Tros, 2004; Madsen, 2007). A reform proposal that concerns a package of policy reforms rather than an isolated policy reform can be expected to overcome opposition from employees in reform processes (Eichhorst and Konle-Seidl, 2005). Therefore, it can be expected that if governments have adopted the flexicurity strategy, the strictness of the dismissal protection has been reduced, unemployment benefits have become more generous and expenditures on ALMP have been increased. Furthermore, if labour market insiders have been compensated with more generous unemployment benefits, not only the employment protection on temporary employment but also on regular contracts should have become less strict.

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<sup>3</sup> Yet, using a fuzzy set approach to analyse the cross-country variation in EPL, Emmenegger (2011) finds that a strong labour movement is not a necessary condition.

#### 4. A cross-country comparison

##### *Flexibility of employment protection legislation*

In this section we examine to what extent EU countries have changed their labour market policies in line with the flexicurity concept. Since flexicurity is a policy concept of the EU, this study is focused on EU member states. Subsequently, the selection of countries and years is guided by the availability of data. Hence, the study includes 18 member states of the EU for the period 1985-2008.

For the flexibility dimension of flexicurity, the study focuses on employment protection legislation (EPL). To compare the strictness of EPL across countries and over time, the study relies on an EPL strictness indicator that is provided by the OECD (2009). The EPL indicator is available for different types of employment. Here, we use the EPL indicator for employees with a regular contract to measure the employment protection of insiders, while the EPL indicator for employees with a temporary contract is used to measure the protection of outsiders.<sup>4</sup>

The EPL indicator for regular contracts is an index that is calculated as a weighted average of sub-indicators of employment regulation. The indicator covers three main areas. The first one is the difficulty of dismissal, referring to the legislative provisions setting conditions under which a dismissal is justified. The second area includes procedural inconveniences that an employer may face during a dismissal process. The third category includes notice and severance pay provisions. The index is normalized to a scale from 0 to 6 where a higher score indicates stricter employment regulation. As such, the index is a comprehensive measure for international comparative studies. A limitation of this indicator is that some characteristics of EPL may be not fully reflected. For instance, since notice periods and severance pay are not legally regulated in some countries, they might be provided by collective agreements or contractual extensions. Because there is no detailed information about such contractual provisions, the EPL index often relies on minimal requirements as provided by labour law. Another disadvantage is the lack of incorporation of judicial practices deviating from the minimal legal requirements (OECD, 2004). Despite these limitations, the index is a conventional summary measure to analyse a relatively large number of countries over a longer period.

Table 1 presents the index for the strictness of EPL with regard to regular employment for 18 EU countries for the period 1985-2008. In the 14 old member states of the EU, the average strictness of employment protection slightly declined between 1985 and 2008. Germany is the only country in which the strictness of EPL has been increased. In some countries, such as France and Italy, EPL has not changed at all. Only five countries, namely Austria, Finland, the Netherlands, Portugal and Spain, reduced the strictness of employment protection substantially. However, in all of them but Finland, the level of EPL still lies above average in 2008. In the countries that acceded the EU in 2004, the level of employment protection has not been changed. Interestingly, the level of employment protection in the new member states is comparable to the level in the old member states.

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<sup>4</sup> The OECD provides also an overall index of EPL. This index builds on the measures for regular and temporary employment as used in this study and on a measure for the regulation with regard to collective dismissals. However, the measure with regard to collective dismissals does not reflect the overall strictness of regulation applicable to collective dismissals, but refers to additional delays and procedures which go beyond those applicable for individual dismissal. Hence, the measure for collective dismissals cannot be considered as a stand-alone indicator and is only useful as a sub-measure of the overall index of EPL (OECD, 2004: 65).

Table 1. Strictness of employment protection legislation on regular employment 1985-2008

	1985	1990	1995	2000	2005	2008	change 1985 - 2008
Austria	2.9	2.9	2.9	2.9	2.4	2.4	-0.6
Belgium	1.7	1.7	1.7	1.7	1.7	1.7	0.1
Czech Republic	:	:	3.3	3.3	3.3	3.1	:
Denmark	1.7	1.7	1.6	1.6	1.6	1.6	-0.1
Finland	2.8	2.8	2.5	2.3	2.2	2.2	-0.6
France	2.5	2.3	2.3	2.3	2.5	2.5	0.0
Germany	2.6	2.6	2.7	2.7	3.0	3.0	0.4
Greece	2.4	2.3	2.3	2.3	2.3	2.3	0.0
Hungary	:	1.9	1.9	1.9	1.9	1.9	:
Ireland	1.6	1.6	1.6	1.6	1.6	1.6	0.0
Italy	1.8	1.8	1.8	1.8	1.8	1.8	0.0
Netherlands	3.1	3.1	3.1	3.1	3.1	2.7	-0.4
Poland	:	2.1	2.1	2.1	2.1	2.1	:
Portugal	5.0	4.8	4.3	4.3	4.2	4.2	-0.8
Slovak Republic	:	:	2.5	2.5	2.3	2.5	:
Spain	3.9	3.9	2.8	2.6	2.5	2.5	-1.4
Sweden	2.9	2.9	2.9	2.9	2.9	2.9	0.0
UK	1.0	1.0	1.0	1.1	1.1	1.1	0.2
Mean EU-18	:	:	2.4	2.4	2.4	2.3	:
Mean EU-14	2.6	2.5	2.4	2.4	2.3	2.3	-0.2
Mean EU-4	:	:	2.4	2.4	2.4	2.4	:

*Note:* The indicator for EPL on regular employment is based on eight sub-measures: the extensiveness of notification procedures for dismissals, the delay involved before notice can start, the length of the notice period of dismissals, the amount of severance payment, the definition of justified or unfair dismissal, the length of trial periods, the compensation following unfair dismissals and the possibility of reinstatement following unfair dismissal.

EU-14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK.

EU-4: Czech Republic, Hungary, Poland, Slovak Republic.

*Source:* OECD Employment Database (OECD, 2009); and own calculations.

The strictness of EPL for temporary employment is the second indicator to measure the flexibility dimension of flexicurity. This indicator measures the restrictions on the hiring of temporary employment by firms. It builds on a number of sub-measures (see the note under Table 2) with respect to the regulation on fixed-term contracts and temporary work agencies. Again, the index is normalised to a scale from 0 to 6 and a higher score indicates stricter regulation. The developments in the strictness of EPL on temporary employment are reported in Table 2. These data indicate that the average level of EPL stringency declined relatively sharply in the period 1985-2008 in the old EU member states, especially since the beginning of the 1990s. In contrast to the trends in the strictness of EPL on regular employment as presented above, most countries have reduced the strictness of EPL on temporary employment. This indicates that governments have mainly opted for changes at the margins of the labour market in order to increase flexibility. The sharpest decline in the strictness of the regulation of temporary employment can be observed in Italy, indicating the deregulation of part-time employment and the introduction of a new type of fixed-term contracts (OECD, 2004). The sharp decline in the indicator for the Netherlands reflects the adoption of the 'flexibility and security' law that

increased the maximum number of successive fixed-term contracts and lengthened the maximum total duration of contracts with temporary work agencies (OECD, 2004). Another interesting case is France. Although the French level of EPL on temporary employment was already above average in 1985, it has been increased even further in the following years. This implies that the French labour market policies have not become more flexible at all, since the EPL on regular employment remained constant. Remarkably, the level of EPL on temporary employment has increased in three of the four new member states included. It only declined in the Slovak Republic. The average level is lower in the new member states than in the old member states, which implies that there seems to be some convergence between the old and new member states.

Table 2. Strictness of employment protection legislation on temporary employment 1985-2008

	1985	1990	1995	2000	2005	2008	change 1985 - 2008
Austria	1.5	1.5	1.5	1.5	1.5	1.5	0.0
Belgium	4.6	4.6	4.6	2.6	2.6	2.6	-2.0
Czech Republic	:	:	0.5	0.5	0.9	0.9	:
Denmark	3.1	3.1	1.4	1.4	1.4	1.4	-1.8
Finland	1.9	1.9	1.9	1.9	1.9	1.8	-0.1
France	3.1	3.6	3.6	3.6	3.6	3.6	0.6
Germany	3.8	3.8	3.5	2.0	1.3	1.3	-2.5
Greece	4.8	4.8	4.8	4.8	3.1	3.1	-1.6
Hungary	:	0.6	0.6	0.6	1.1	1.4	:
Ireland	0.3	0.3	0.3	0.3	0.6	0.6	0.4
Italy	5.4	5.4	5.4	3.3	1.9	2.0	-3.4
Netherlands	2.4	2.4	2.4	1.2	1.2	1.2	-1.2
Poland	:	0.8	0.8	0.8	1.8	1.8	:
Portugal	3.4	3.4	3.4	3.0	2.8	2.1	-1.3
Slovak Republic	:	:	1.1	1.1	0.4	0.4	:
Spain	3.8	3.8	3.3	3.3	3.5	3.5	-0.3
Sweden	4.1	4.1	2.1	1.6	1.6	0.9	-3.2
UK	0.3	0.3	0.3	0.3	0.4	0.4	0.1
Mean EU-18	:	:	2.3	1.9	1.8	1.7	:
Mean EU-14	3.0	3.1	2.7	2.2	2.0	1.9	-1.2
Mean EU-4	:	:	0.8	0.8	1.0	1.1	:

*Note:* The indicator for EPL on temporary employment is based on six sub-measures: valid cases for the use of fixed-term contracts, the maximum number of successive fixed-term contracts, the maximum cumulated duration of successive fixed-term contracts, the types of work for which temporary work agency employment is legal, restrictions on the number of renewals and the maximum cumulated duration of temporary work agency contracts.

EU-14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK.

EU-4: Czech Republic, Hungary, Poland, Slovak Republic.

*Source:* OECD Employment Database (OECD, 2009); and own calculations.

#### *Income security from unemployment benefits*

Following conventions in the field (Cornelisse and Goudswaard, 2002; Caminada e.a., 2010; Swank, 2011), replacement rates of unemployment benefits are used to measure the level of income security. Naturally, not only the level, but also the duration of entitlement rights is

relevant to indicate the generosity of unemployment benefits. However, because of the limited data availability, the duration is not included in this study. Earlier research shows that most countries had not changed the duration of entitlement rights in the period 1995-2002 (Van Vliet, 2010). For gross unemployment replacement rates the study relies on OECD (2010b) data. This measure indicates the level of gross unemployment benefits as percentage of previous gross income from work. The replacement rate is calculated as an unweighted average of benefit payments in various situations of previous income, unemployment spells and household types.

Table 3 shows that gross unemployment benefits increased on average by 2.9 percentage points in the 14 old member states of the EU between 1985 and 2007. The increase was even larger in the first half of this period, but some countries reduced the benefit level after 2001. The generosity of replacement rates in the new member states is lower than in the old member states. This partly causes the decline in the mean of the 18 EU countries from 2001 onwards. The increase in the benefit level in the old member states indicates that income security has increased, which is in line with the concept of flexicurity. Especially the Southern welfare states Greece, Italy and Portugal, with rather low levels of replacement rates in 1985, caught up rapidly. As was the case with EPL for temporary employment, France shows a strong increase in the level of unemployment benefits. The sharpest decline in the level of unemployment benefits was in the Netherlands, owing to reforms of the unemployment benefit schemes.

Table 3. Gross replacement rates unemployment benefits 1985-2007

	1985	1991	1995	2001	2005	2007	change 1985 - 2007
Austria	29.4	31.2	32.5	31.5	31.9	31.6	2.3
Belgium	43.1	41.6	38.7	38.5	40.9	40.0	-3.1
Czech Republic	:	:	:	5.9	6.2	6.3	:
Denmark	53.1	51.9	64.9	50.9	50.5	47.7	-5.4
Finland	34.4	38.8	35.8	34.9	35.2	34.1	-0.3
France	34.4	37.6	37.4	43.5	39.0	39.0	4.6
Germany	28.3	28.8	26.3	29.4	24.2	23.7	-4.6
Greece	7.1	12.7	14.7	13.3	12.9	12.6	5.5
Hungary	:	:	:	12.9	12.6	13.3	:
Ireland	28.3	29.3	26.3	29.7	33.7	37.2	9.0
Italy	0.4	2.5	19.3	34.1	32.5	31.7	31.3
Netherlands	54.6	53.2	52.3	52.9	35.3	33.9	-20.7
Poland	:	:	:	11.5	11.5	10.2	:
Portugal	21.7	34.4	35.4	41.3	39.5	43.4	21.7
Slovak Republic	:	:	:	11.7	8.3	8.3	:
Spain	34.4	33.5	39.0	36.5	36.0	35.9	1.5
Sweden	27.9	29.4	26.9	36.9	38.8	32.4	4.4
UK	20.7	17.8	17.8	16.6	15.6	15.2	-5.5
Mean EU-18	:	:	:	29.5	28.0	27.6	:
Mean EU-14	29.8	31.6	33.4	35.0	33.3	32.8	2.9
Mean EU-4	:	:	:	10.5	9.6	9.5	:

*Note:* Replacement rates are calculated as unweighted averages of several situations in which benefits are estimated for three durations of unemployment spells (1, 2 to 3, 4 to 5 years of unemployment), three family situations (single, with dependent spouse, with spouse in work), two earning levels (average earnings and two-thirds of average earnings of an average production worker).

EU-14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK.

EU-4: Czech Republic, Hungary, Poland, Slovak Republic.

*Source:* OECD Tax-Benefit Models (OECD, 2010); and own calculations.

Despite the fact that the gross unemployment replacement is a conventional measure in the comparative welfare state literature, it can only be seen as a limited indicator of the generosity of benefit systems for unemployed people (Whiteford, 1995). First, because of differences in taxation of unemployment benefits, gross replacement rates are difficult to compare across countries. Second, gross replacement rates only represent unemployment benefits instead of all the benefits unemployed people are entitled to, such as family benefits. Therefore, we also use an indicator that takes these shortcomings into account: the net unemployment replacement rate, taken from Van Vliet and Caminada (2012) who updated Scruggs' (2005) Welfare State Entitlements Data Set. The net unemployment replacement rate is the ratio of the net income from unemployment benefits to the net income from work. The measure indicates the generosity of unemployment benefits in the initial phase of unemployment and it is based on the wage level of an average production worker.<sup>5</sup> Here, we employ the unweighted average of the replacement rates of two household situations, namely single persons and one earner couples with two children.

Net unemployment replacement rates are presented in Table 4. These data indicate that the net level of unemployment benefits has been decreased in most of the European countries. Interestingly, this trend is neither in line with the increase of the generosity of the gross unemployment benefits, nor with the concept of flexicurity. Only in Italy the net replacement rates increased substantially. In line with the stricter EPL and the higher gross benefits, also the net benefit level has been increased in France. In Ireland, the net replacement rate is lower in 2008 than in 1985, but from 2000 onwards, the benefit level has been increased. Furthermore, the levels of the net replacement rates are obviously higher than the levels of the gross replacement rates, which indicates that income taxes are lower and other social benefits are more generous for the unemployed. However, it should be noted that the difference between gross and net can also be partly explained by the fact that the net replacement rates only refer to the first year of unemployment, whereas the gross replacement rates refer to a five year unemployment spell. In most countries, the level of unemployment benefits decreases when unemployment spells are longer.

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<sup>5</sup> The OECD has made a fundamental change in the approach of the average wages. The classical approach of calculating the average wage was based on the average wage of a production worker (APW), which refers to the wage level in the manufacturing industry. The new concept for the average wage refers to the average worker wage (AW), which includes much more sectors. The differences in the levels of the APW and the AW can be significant for individual countries. The transition from APW to AW started in 2005 and the AW is available from 2000 onwards. The APW data is available for all years up to 2005 and for the year 2007. Hence, there is no consistent time series for the period 1985-2008. In order to have a consistent replacement rate time series, Van Vliet and Caminada (2012) estimated the APW for the years 2006 and 2008 based on the growth rate of the AW.

Table 4. Net replacement rates unemployment benefits 1985 - 2008

	1985	1990	1995	2000	2005	2008	change 1985 - 2008
Austria	65.0	64.9	64.8	63.9	61.5	61.3	-3.7
Belgium	68.6	62.2	62.8	60.9	60.3	58.7	-9.9
Czech Republic	:	:	48.7	47.3	47.0	48.8	:
Denmark	75.7	70.2	66.7	63.8	60.4	57.9	-17.7
Finland	69.2	68.0	68.6	62.5	61.1	58.0	-11.2
France	67.6	66.7	68.1	70.5	69.5	70.0	2.4
Germany	66.5	66.4	64.4	65.6	65.7	65.6	-0.9
Greece	38.4	35.1 <sup>a</sup>	36.6	36.8	38.8	41.6	3.2
Hungary	:	76.2	64.8	47.2	44.6	41.5	:
Ireland	62.0	49.3	49.7	39.1	45.9	47.9	-14.1
Italy	8.4	24.3	31.0	45.4	56.6	68.2	59.8
Netherlands	86.9	76.0	76.0	76.2	71.0	70.1	-16.8
Poland	:	:	41.0	32.5	32.7	25.9	:
Portugal	78.3	77.2	78.2	79.3	76.4	76.4	-1.9
Slovak Republic	82.0	80.1	61.9	62.0	60.4	59.3	-22.7
Spain	:	:	63.8	55.0	61.0	61.3	:
Sweden	82.2	82.9	81.0	69.7	73.9	64.3	-17.9
UK	34.9	27.9	29.6	36.6	34.6	33.8	-1.0
Mean EU-18	:	:	58.8	56.4	56.7	56.1	:
Mean EU-14	63.3	60.8	60.0	59.5	59.7	59.5	-3.7
Mean EU-4	:	:	54.6	45.5	46.3	44.4	:

*Note:* Replacement rates are calculated as unweighted averages of benefits for two family situations (single person and one earner couple with two children), for an unemployment spell of 1 year and for the average production worker wage.

a: The value for Greece in 1990 is calculated as the average of the values in 1989 and 1991.

EU-14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK.

EU-4: Czech Republic, Hungary, Poland, Slovak Republic.

*Source:* Unemployment replacement rates dataset (Van Vliet and Caminada, 2012); and own calculations.

### *Employment security from active labour market policies*

To compare the developments in employment security policies across countries, the study relies on expenditures on ALMPs. The main programmes included are public employment service, labour market training, job rotation, employment incentives, supported employment, direct job creation and start-up incentives. We use a measure that expresses ALMP expenditures as a share of expenditures on all labour market policies (LMPs), defined as the sum of spending on activation policies and on unemployment benefits. This measure indicates governments' emphasis on activation policies relative to all labour market policies. Furthermore, since both the nominator and the denominator of the indicator are related to the unemployment rate, the effect of the unemployment rate on the expenditure measure as a whole is cancelled out. For this measure, data are taken from the OECD (2012).

Table 5 presents the expenditures on ALMPs as a share of expenditures on all LMPs. Between 1990 (the first data year for which the observations of the old member states are complete) and 2007, the expenditures on ALMPs as a share of total LMP spending have been increased. This trend indicates that the financial efforts of the governments of the old member states on employment security have been increased, which is in line with the concept of flexicurity.<sup>6</sup>

<sup>6</sup> In other studies (for instance Van Vliet and Koster, 2011) it has been shown that for many countries the trends in different ALMP expenditure measures, for instance ALMP expenditures per unemployed relative to GDP per capita, are rather comparable.

These increases in ALMP expenditures can be observed across all welfare state types, such as for instance Austria, Denmark, Italy and the United Kingdom. However, in all of the considered new member states except the Czech Republic, the efforts of governments on activation have been decreased between 1995 and 2007.

Table 5. ALMP expenditures as share of LMP expenditures 1985 - 2007

	1985	1990	1995	2000	2005	2007	change 1995 - 2007
Austria	23.4	25.8	22.7	35.6	35.5	42.4	19.7
Belgium	26.4	27.5	27.3	29.1	24.9	28.1	0.9
Czech Republic	:	:	26.3	24.2	28.9	30.3	4.0
Denmark	:	15.1	30.1	38.6	35.9	40.4	10.3
Finland	36.1	43.7	26.5	28.9	31.1	35.9	9.4
France	20.5	30.2	42.4	45.0	34.4	39.9	-2.5
Germany	34.3	50.3	43.5	48.0	32.2	34.3	-9.2
Greece	33.0	31.5	49.4	37.4	14.4	27.2	-22.2
Hungary	:	:	31.9	35.9	34.7	31.7	-0.1
Ireland	24.0	38.6	42.6	50.8	41.9	39.6	-3.1
Italy	:	27.8	27.8	58.6	53.9	50.7	22.8
Netherlands	28.3	33.5	32.5	53.8	45.2	48.6	16.1
Poland	:	97.5	18.9	22.6	44.2	61.5	42.6
Portugal	:	60.5	34.6	48.8	36.3	34.0	-0.6
Slovak Republic	:	:	63.6	32.5	54.7	37.5	-26.1
Spain	10.7	19.8	11.9	28.6	24.6	25.6	13.7
Sweden	70.6	65.5	48.9	55.8	51.8	62.2	13.4
UK	25.3	43.7	32.1	42.6	63.4	60.9	28.8
Mean EU-18	:	:	34.1	39.8	38.2	40.6	6.5
Mean EU-14	:	36.7	33.7	43.0	37.5	40.7	7.0
Mean EU-4	:	:	35.2	28.8	40.6	40.3	5.1

*Note:* Expenditures on labour market policies (LMP) consist of expenditures on passive labour market policies (unemployment benefits) and active labour market policies (ALMP). ALMP expenditures include expenditures on public employment service and administration, labour market training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives.

EU-14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK.

EU-4: Czech Republic, Hungary, Poland, Slovak Republic.

*Source:* OECD Social Expenditure Database (OECD, 2012); and own calculations.

### *Flexicurity reforms*

The data provide insight into the changes in three dimensions of flexicurity policies in the EU. The developments in the EPL measures and the gross unemployment replacement rates seem to indicate that at least four countries changed their labour market policies into the direction of flexicurity, namely Austria, Finland, Italy, and Spain. In these countries, the expenditures on ALMP and the gross unemployment benefits have been increased and one of the two EPL measures shows a decline in strictness while the other EPL measure stays at least constant or has been decreased too. However, the net replacement rates have become lower in most of these countries, meaning that increases in unemployment benefits have not been applied to compensate the reductions in employment protection for the insiders. This is for instance the case for Austria. At first sight, the data suggest that Austria is a textbook example of the flexicurity strategy. EPL for regular employment has been loosened, compensated with higher

gross unemployment benefits and ALMP expenditure. However, the net replacement rates indicate that the unemployment benefits have in fact become less generous. This raises the question why the reform of the Austrian EPL has actually been successful, since it is unlikely that employees accept lower unemployment benefits and more flexible EPL in exchange for higher ALMP expenditure. In 2002, a new severance pay law was adopted. The new law replaced a conventional severance payments system with an individual and portable savings accounts system that is funded by employers via a monthly payment. In the case of dismissal, an employee has the choice of either receiving severance payment drawn from his savings account or taking his accumulated balance to the next job. At retirement, the employee can get a cash payment or convert his entitlements into an annuity (Hofer, 2007: 41). The reform is based on a compromise between the social partners. For employers the advantage of the new system is that there is no uncertainty regarding the costs of dismissal, which are lower than in the old system, because they are known at the time of hiring. For employees, job mobility costs are lower because they do not lose their entitlement to severance payment when quitting a job, as was the case in the old system (Hofer, 2007: 46). Interestingly, by *reforming* EPL rather than plainly *reducing* dismissal protection, the social partners were able to come up with a proposal to enhance external flexibility that was acceptable for the insiders.

The Danish policies are interesting as well, since these are often mentioned as a typical example of flexicurity. Indeed, the strictness of EPL on regular employment has been below the mean level during the whole period and the unemployment benefits system is one of the most generous systems in the EU. However, this configuration of complementary labour market policies has emerged in the course of quite a long period, rather than being the result of an explicit reform strategy to increase flexibility and security simultaneously that was designed on the drawing board (Burroni and Keune, 2011). Moreover, as the data show, the direction of the policy changes is not in line with the principles of the flexicurity concept, as the unemployment benefits have become less generous and the flexibility of the labour market was only slightly extended, holding the protection of regular employment unchanged. However, the efforts on active labour market policies have actually been increased in Denmark, which is in line with the flexicurity concept.

Interestingly, the results indicate further that most countries have opted for a reduction of the EPL on temporary employment instead of changing the protection of regular employment. In seven countries – Belgium, Denmark, Germany, Greece, Italy, Netherlands and Sweden – employment protection has been reduced for temporary workers, while it remained constant for regular workers. In Germany, the employment protection for regular workers has even increased. This disparity between the reforms of regulation of regular and temporary employment contracts indicates that governments have applied two tier reforms rather than the flexicurity strategy, which may be owing to the influence of insiders. In Italy for instance, labour law reforms included the deregulation of part-time employment and the introduction of project-based contracts, a new type of fixed-term contracts. These changes at the margins of the labour market are the result of the fact that the trade unions have successfully challenged attempts to introduce more flexibility for insiders, whereas outsiders were not represented in the negotiations between employers and trade unions (Bonoli and Emmenegger, 2010).

#### *Dualisation of labour markets*

The data presented above indicate that the difference in employment protection between regular and temporary employment has been increased in Europe. However, the magnitude of the inequality between insiders and outsiders on the labour market in terms of employment protection also depends on the relative size of the group of employees with temporary contracts. When more and more employees have a regular open-ended contract, deregulation of temporary employment would not necessarily imply more inequality on the labour market as a whole. Table 6 presents the development of the number of employees with a temporary

contract as a percentage of all employees, based on data from the Eurostat Labour Force Survey (Eurostat 2010). There is considerable variation across the countries. In 2008, for instance, 29.3 percent of the Spanish employees worked on a temporary contract, while this was only 4.5 percent in the United Kingdom. In three of the four new member states, the share of temporary employees is lower than the average level of the old member states. The exception is Poland, that is with 26.9 percent the second highest of the whole country group. More important, the table shows that the share of temporary employees has increased in the EU countries. Among the old member states, the sharpest increase can be observed in the Netherlands, from 10.8 percent in 1995 to 17.9 percent in 2008. This is probably partly due to the fact that the EPL on temporary contracts has been reduced more than the EPL on open-ended contracts. On average, the share of temporary employees rose by almost two percentage points in the old member states between 1995 (the first data year for which the observations of the old member states are complete) and 2008. This implies that, combined with the above presented trend in the EPL on temporary employment, there are more employees with a temporary contract enjoying less protection.

Table 6. Employees with a temporary contract as percentage of total employees 1985-2008

	1985	1990	1995	2000	2005	2008	change 1995 - 2008
Austria	:	:	6.0	8.0	9.1	9.0	3.0
Belgium	6.9	5.3	5.3	9.0	8.8	8.3	3.0
Czech Republic	:	:	:	7.2	7.9	7.2	:
Denmark	12.3	10.8	12.1	10.2	9.8	8.3	-3.8
Finland	:	:	16.5	17.7	16.5	14.9	-1.6
France	4.7	10.6	12.2	15.4	14.1	14.1	1.9
Germany	10.0	10.5	10.4	12.8	14.2	14.7	4.3
Greece	21.1	16.5	10.2	13.8	11.8	11.5	1.3
Hungary	:	:	:	6.8	7.0	7.8	:
Ireland	7.3	8.5	10.2	5.3	3.7	8.4	-1.8
Italy	4.7	5.2	7.2	10.1	12.3	13.3	6.1
Netherlands	7.5	7.6	10.8	13.8	15.4	17.9	7.1
Poland	:	:	:	5.6	25.6	26.9	:
Portugal	:	18.4	10.1	19.8	19.5	22.9	12.8
Spain	:	29.9	35.0	32.4	33.4	29.3	-5.7
Slovak Republic	:	:	:	4.0	4.9	4.5	:
Sweden	:	:	13.0	14.3	15.7	15.8	2.8
United Kingdom	6.9	5.1	6.9	6.6	5.7	5.3	-1.6
Mean EU-18	:	:	:	11.8	13.1	13.3	:
Mean EU-14	:	:	11.9	13.5	13.6	13.8	2.0
Mean EU-4	:	:	:	5.9	11.4	11.6	:

*Note:* EU-14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK.  
EU-4: Czech Republic, Hungary, Poland, Slovak Republic.

*Source:* Eurostat Labour Force Survey (Eurostat, 2010); and own calculations.

## 5. Discussion and conclusions

The concept of flexicurity has gained importance in the European policy debates since the beginning of the twenty-first century. In contrast, the presented data show that the labour market policies across the EU have not been reformed along the lines of the flexicurity concept. The strictness of employment protection has been decreased on average between 1985 and 2008, but the disparity between insiders and outsiders has actually become larger. The data show that most countries have increased labour market flexibility by reducing employment protection on temporary employment more than employment protection on regular open-ended contracts. In addition, since firms have hired relatively more temporary employees, larger shares of European labour forces have a temporary contract. The inequality between insiders and outsiders on the labour market has been illustrated by the consequences of the financial crisis around 2009. When firms started to reduce their production capacity in reaction to the recession, the temporary employees were the first to be dismissed. As a result, the rising unemployment figures across the EU are overrepresented by former temporary employees (OECD, 2010a).

Furthermore, whereas most of the existing literature on labour market institutions is mainly focused on West European countries, this study also includes a number of Central and East European countries. Interestingly, the levels of protection on regular employment in the new EU member states are comparable to the protection levels in the old member states. This is remarkable, since labour market and social policies in the new member states usually differ strongly from the old member states (Draxler and Van Vliet, 2010). Naturally, these observations should be interpreted with caution, since only four new member states are included.

The differences in the reforms of employment protection on temporary and permanent contracts are probably owing to the role of insiders in policy making processes. Responding to pressure from internationalisation and labour market performance, governments have attempted to introduce elements of flexibility. Since trade unions have successfully challenged such attempts, governments have opted for reforms at the margins of the labour market. Yet, the flexicurity strategy is aimed at providing reform packages that could compensate the reduced employment protection of insiders. A tentative explanation for the limited success of this strategy is that the second element of the flexicurity concept, an increase in income security, has not been implemented either. The developments in the gross unemployment replacement rates suggest that unemployment benefits have become more generous, whilst the net replacement rates indicate that when taxes and other benefit schemes are taken into account, the income security for the unemployed has actually been decreased. Consequently, insiders have not been compensated sufficiently for reductions in dismissal protection, even though the expenditures on ALMPs have been increased.

Hitherto, flexicurity has not been a very effective strategy to reform labour market policies. However, it looks as if other reform trajectories are taking place instead. They proceed mostly incrementally and they may vary across countries, but in the end, the outcomes could be comparable to the aims of the flexicurity strategy. When asymmetrical labour market reforms lead to the situation that the share of temporary employees grows because they become more attractive for firms, the position of insiders tends to be undermined. Hence, reforms at the margin could trigger wage competition between labour market segments, resulting in greater general flexibility. In Germany for example, trade unions responded to the threat of being crowded out by advocating more internal flexibility (Eichhorst and Marx, 2011: 85). Another result of the growth of non-standard jobs could be that outsiders get better organized in new labour unions. These unions will claim stronger positions in central confederations and in tripartite institutions. New constellations in the industrial relations lead to other labour market policy reforms, resulting in smaller differences in employment protection between regular and temporary employment. In addition, larger fractions of the workforce consisting of temporary employees may also have political consequences. When the composition of the

electorate changes, the attitude of the electorate towards more flexible employment regulation may become more positive which makes it more likely that politicians will adopt reforms (Saint-Paul, 2004). Political support for reforming EPL on permanent contracts could be expected in countries with many temporary contracts, such as Spain and Poland.

In summary, European labour market policy reforms are generally not in line with the flexicurity concept but haven been focused at the margins. These two-tier reforms and the growing number of temporary employees could enhance more general labour market flexibility in the long run, but they imply larger gaps between insiders and outsiders in the short run. This increased inequality between insiders and outsiders is contrary to the goals of the European Commission. Yet, the Austrian case illustrates that attempts to introduce more flexibility which entail reforming rather than simply reducing employment protection can be successful in the short run too.

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