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Towards Consistent Principles of Flexicurity[1]

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Abstract

The paper contains analysis of, critical remarks on, and constructive suggestions to *Towards Common Principles of Flexicurtity* of the European Commission (2007). The latter promotes relaxing the employment protection legislation while providing advances in employment and social security for flexible workforces, like fixed-term, part-time and agency workers, or self-employed. The default assumption, that relaxing labour laws can be compensated by these advances, is criticised as the compensating measures are regarded as vague and insufficient. Therefore, some additional measures are proposed to counterbalance the actual flexibilisation of employment relations, including (1) *flexinsurance*, a kind of progressive flexibilisation tax, meaning that the employer's contribution to social security should be proportional to the flexibility of the contract/risk of becoming unemployed, (2) elements of the *basic minimum income* model, (3) *workplace tax* for worse working conditions of atypically employed which should protect 'the working environment' in the same way as the green tax protects the natural environment, and (4) *constraining financial markets*. It is argued that all of these meet interests of social partners and solve contradictions between several European policies.

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Commission's initiatives

Recently, the European Commission published two important documents with arguments in favour of the flexicurity approach to labour market reforms:

- *Green Paper: Modernising labour law to meet the challenges of the 21st century* (European Commission 2006b) and
- *Towards Common Principles of Flexicurity: More and Better Jobs Through Flexibility and Security* (European Commission 2007), first published as Commission's Communication.

The *Common Principles of Flexicurity* are already accepted by the Business Europe-CEEP-CES-UEAPME on November 29, 2007, and by EU Employment and Social Affairs Ministers on December 5, 2007, whose decision has been ratified by the Council of Europe on December 14 (Institut de la Protection Sociale Européenne 2007). The last word is left for the European Parliament.

So, what is flexicurity and how should it be implemented at the European and national levels?

Fexicurity is generally understood as a policy which makes compatible flexibilisation (= deregulation) of labour markets with the European tradition of welfare state. For this purpose, flexibilisation is supposed to be compensated with advantages in social security and employment security, resulting in a kind of trade-off. Flexibilisation is expected to improve firms' performance and increase in the competitiveness of European economy. In turn, it should foster production and stimulate labour markets, creating 'more and better jobs', as declared at the EU Lisbon summit 2000. The 'better jobs' should meet the ILO (1999) concept of decent work, combining promotion of rights at work; employment; social protection; and social dialogue.

Both documents of the Commission cited refer to the Danish *Golden Triangle* (weak employment protection, intensive active labour market policies, and generous social security) and to three examples of reforms: Dutch Flexibility and Security Act 1999, Austrian Severance Act (*Abfertigungsrecht*) 2002, and the June 2006 Spanish decree easing the conversion of temporary labour contracts into open-ended labour contracts with reduced dismissal costs; see European Commission (2006b, p. 10 and 2007, pp. 36–37). The reforms enhance labour market flexibility, in particular making dismissals easier, and at the same time provide some advantages for certain types of employees. These examples should convince other Member States to pursue the flexicurity policy and to implement corresponding legislation reforms.

History of flexicurity

In most of post-war Europe, employment relations were regulated by rather constraining employment protection legislation and collective agreements. The contradiction between the flexibilisation pursued by employers and labour market regulation defended by trade unions caused a discussion on flexibilisation and employment protection legislation with regard to economical performance and unemployment as early as in the 1980s.

The advantages and disadvantages of labour market regulation/flexibility versus employment were investigated in the two-volume *Jobs Study* by the OECD (1994), containing, as indicated in its subtitle, 'evidence and explanation' for relaxing employment protection. It evoked numerous responses from scholars; for a review focusing on European welfare states see Esping-Andersen (2000a). As concluded by Esping-Andersen (2000b, p. 99), 'the link between labour market regulation and employment is hard to pin down'. Under certain model assumptions, the same empirical evidence, that unemployment is practically independent of the strictness of employment protection legislation, was reported also by the OECD (1999, pp. 47–132). There are even cases when the same legislative changes caused different effects. For instance, the impact of almost equal deregulation measures on the use of fixed-term contracts 'was sharply different' in Germany and Spain (OECD 1999, p. 71).

At the same time, a good labour market performance under little regulation was inherent in the Anglo-Saxon model, that is, USA, Canada, United Kingdom, and Australia (OECD 1994, Esping-Andrsen 2000a). The deregulation of labour market in the Netherlands, which had a different kind of economy, coincided with the 'Dutch miracle' of the 1990s (Visser and Hemerijck 1997 and Gorter 2000). A similar Danish practice in the background of 'Eurosclerosis' (Esping-Andersen 2000a, p. 67) was successful as well (Björklund 2000, Madsen 2003). All of these convinced some European politicians in the harmlessness and even usefulness of labour market deregulation. It was believed that employment flexibility could improve firms' productivity and cause an economic growth with a good labour market performance; for critical analysis of this viewpoint see Coats (2006).

The claims for flexibilisation met a hard resistance, especially in countries with old traditions of struggle for labour rights. Wilthagen and Tros (2004, p. 179) reported with a reference to Korver (2001) that the *Green Paper: Partnership for a New Organisation of Work* of the European Commission (1997) 'which promoted the idea of social partnership and balancing flexibility and security' got a very negative response from French and German trade unions, because 'the idea of partnership represents a threat to the independence of unions and a denial of the importance of worker’s rights and positions, notably at the enterprise level'. The ILO published a report, concluding that 'the flexibilisation of the labour market has led to a significant erosion of worker’s rights in fundamentally important areas which concern their employment and income security and (relative) stability of their working and living conditions' (Ozaki 1999, p. 116).

To handle a growing flexibility of employment relations with lower job security and decreasing eligibility to social benefits, the notion of *flexicurity* has been introduced. Wilthagen and Tros (2004, p. 173) ascribe the conception of flexicurity to a member of the Dutch Scientific Council of Government Policy, Professor Hans Adriaansens, and the Dutch Minister of Social Affairs, Ad Melkert (Labour Party). In the autumn of 1995 Adriaansens launched this catchy word in speeches and interviews, having defined it as a shift from job security towards employment security. He suggested compensating the decreasing job security (fewer permanent jobs and easier dismissals) by improving employment opportunities and social security.

For instance, a relaxation of the employment protection legislation was supposed to be counterbalanced by providing improvements to fixed-term and part-time workers, supporting lifelong professional training which facilitates changes of jobs, more favourable regulation of working time, and additional social benefits. In December 1995 Ad Melkert presented a memorandum *Flexibility and Security*, on the relaxation of the employment protection legislation of permanent workers, provided that fixed-term and agency workers get regular employment status, without however adopting the concept of flexicurity as such. By the end of 1997 the Dutch parliament accepted flexibility/security proposals and shaped them into the *Dutch Flexibility and Security Act* which came in force in 1999.

The OECD (2004b, pp. 97–98) ascribes the flexicurity to Denmark with its traditionally weak employment protection, highly developed social security, and easiness to find a job (the *Golden Triangle* mentioned); see also Madsen (2003) and Breedgaard et al. (2005). Regardless of the non-Danish origin of the word flexicurity, both countries were recognized as 'good-practice examples' (Kok et al. 2004) and inspired the international flexicurity debate. Although some authors considered flexicurity a specific Dutch/Danish phenomenon (Gorter 2000), the idea spread all over Europe in a few years; for a selection of recent international contributions see Jepsen and Klammer (2004), Kronauer and Linne (2005), Jørgensen and Madsen (2007).

At the Lisbon summit of 2000 the EU had already referred to this concept (Vielle and Walthery 2003, p. 2; Keller and Seifert 2004, p. 227), and after the meeting in Villach in January 2006 flexicurity became a top theme in the European Commission culminating now in the publication of the *Green Paper* and ratification of the *Common Principles*.

Definition of flexicurity

In spite of intensive discussions there exists neither an established definition, nor even an unambiguous idea of flexicurity. Although flexicurity is being adopted as a European policy, it remains to be ill-defined at the 'official level'.

Three of twelve questions discussed at the *Expert meeting on flexicurity strategies and the implications of their adoption at the European level on the occasion of German–Portugal–Slovenian presidency in the EU* organized by the Portugal government in Lisbon on September 25, 2006, were just on definitions; for the full list of questions see Tangian (2006). The situation remained similar at the conference *Flexicurity: Key Challenges* organized by the Portugal Presidency in Lisbon on September 13–14, 2007, where almost every speaker focused attention on the definition of flexicurity.

As for the documents of the European Commission cited, the *Green Paper* introduces the word *flexicurity* in p. 4 rather as a metaphor, using it twice in quotation marks, and afterwards without. The *Common Principles* formulate it as follows:

> *Flexicurity can be defined as an integrated strategy to enhance, at the same time, flexibility and security in the labour market* (*Common Principles,* p. 10).

This is a shortened Wilthagen's definition quoted a year before in *Employment in Europe 2006* by the same Directorate-General for Employment, Social Affairs and Equal Opportunities (European Commission 2006a, p. 77):

> *[Flexicurity is] a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organization and labour relations on the one hand, and to enhance security — employment security and social security — notably for weak groups in and outside the labour market on the other hand* (Wilthagen and Tros 2004, p. 169).

Which could be the reason for removing most of the content from the already used definition?

According to Wilthagen and Tros, flexicurity is a *flexibility versus security trade-off.* It is illustrated with a matrix which 'can serve as a heuristic tool empirically to trace flexicurity policies as specific trade-offs or at least interconnections between certain types of flexibility and certain types of security' (Wilthagen and Tros 2004, p. 171). However, the very idea of trade-off assumes **(1) contradictory interests** and **(2) finding a *deliberate* compromise**.

Moreover, compensating flexibilisation with security means that **(3) flexibilisation is harmful**, at least for some people — otherwise what is the compensation for?

According to the *Common Principles,* there are no contradictory interests, flexibilisation is not harmful but desired by both employers and employees, and it guarantees better career chances, as if providing a new dimension of security:

> Flexibility, on the one hand, is about successful moves ('transitions') during one's life course: from school to work, from one job to another, between unemployment or inactivity and work, and from work to retirement. It is not limited to more freedom for companies to recruit or dismiss, and it does not imply that open-ended contracts are obsolete. It is about progress of workers into better jobs, 'upward mobility' and optimal development of talent. Flexibility is also about that flexible work organisations, capable of quickly and effectively mastering new productive needs and skills, and about facilitating the combination of work and private responsibilities. Security, on the other hand, is more than just the security to maintain one's job: it is about equipping people with the skills that enable them to progress in their working lives, and helping them find new employment. It is also about adequate unemployment benefits to facilitate transitions. Finally, it encompasses training opportunities for all workers, especially the low skilled and older workers.
>
> Thus, enterprises and workers can both benefit from flexibility and from security, e.g. from better work organisation, from the upward mobility resulting from increased skills, from investment in training that pay off for enterprises while helping workers adapt to and accept change (*Common Principles*, p. 10).

Next, *Common Principles* outline four policy components of flexicurity:

- *Flexible and reliable contractual arrangements* (from the perspective of the employer and the employee, of "insiders" and "outsiders") through modern labour laws, collective agreements and work organisation;
- *Comprehensive lifelong learning (LLL) strategies* to ensure the continual adaptability and employability of workers, particularly the most vulnerable;
- *Effective active labour market policies (ALMP)* that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs;
- *Modern social security systems* that provide adequate income support, encourage employment and facilitate labour market mobility. This includes broad coverage of social protection provisions (unemployment benefits, pensions and healthcare) that help people combine work with private and family responsibilities such as childcare (*Common Principles*, p. 12).

The intent to adapt 'modern labour laws' to release flexibilisation is clear, but it is not explained how contractual arrangements can be 'flexible and reliable' simultaneously (the expression repeated several times in *Common Principles*), and which contractual arrangements could be relevant to "outsiders".

Learning was always an element of active labour market policies (ALMP) but not as important as job creation. Since the latter is mentioned only once in p. 13 of *Common Principles* and learning is overemphasized, it looks that ALMP are reconsidered with learning being made their major driving force.

*'Modern social security systems…*encourage employment and facilitate labour market mobility'. This goal has already been implemented in *make work pay* policies aimed at

stimulating employment, particularly by reducing social security benefits and by compulsory refresher training. As noted by Keune and Jepsen (2007, p. 15),

> The Commission's position strongly points towards a change in the notion of security, which moves from being understood as protection against risk to the capacity to adapt to change by means of a process of constant learning (Serrano-Pascual 2004). 'Old' types of security are deemed to obstruct the necessary flexibility and should be reduced. This concerns, in particular, a tightening of benefit schemes where they are 'generous'.

This reconsideration of social security constitutes the major distinction from the Wilthagen definition which assumes **(4) employment security and social security in their common understanding and in application both to labour market insiders and outsiders.** *Common Principles* reduce the role of social security to 'adequate unemployment benefits to facilitate transitions' (that is, for labour market insiders) and of employment security — to life long learning:

> Security means 'employment security' — to provide people with the training they need to keep their skills up-to-date and to develop their talent as well as providing them with adequate unemployment benefits if they were to lose their job for a period of time (*Common Principles,* p. 11)[2].

Thus, the Wilthagen definition describes flexicurity as a strategy to resolve a social conflict caused by increasing flexibilisation by usual employment security and social security measures. *Common Principles* conceal the conflict and propose to reduce job security and social security as an obstacle for flexibilisation. According to Keane and Jepsen, the European Commission' flexicurity is just a modern label for the long promoted deregulation issue, 'old wine in a fashionable new bottle' (Keane and Jepsen 2007, p. 16). This could be the explanation why the comprehensive Wilthagen definition has been reduced to an almost tautological formulation enabling alternative interpretations. However, even the Commission's conception of flexicurity differs from unconditional deregulation due to some compensatory measures like lifelong learning.

A consensus in balancing all the factors within the flexicurity debate is not a pure theoretical question but rather an issue for bargaining between governments, employers, and trade unions, similarly to collective agreements. Specific understandings (definitions) of flexicurity may depend on flexibilisation steps suggested, tempo of deregulation, particular social advantages proposed, and estimates of their compensatory equivalence[3]. Regardless of

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[2] Some authors, also prominent, interchange the meanings of employment security and job security; see for instance Standing (1999, p. 52). To avoid misunderstanding, *employment security* in the sense of the European Commission is the certainty of remaining at work not necessarily with the same employer. It assumes the availability of jobs for dismissed and unemployed, corresponding to their qualification and previous working conditions. According to the European Commission, employment security is guaranteed by lifelong-learning.

[3] Keune (2008a, p. 97–98 repeated in 2008b) describes differences in the understanding of flexicurity by European institutions. Contrary to the Commission's claims for further flexibilisation, the Council of the EU calls the Member States upon 'to strengthen standard working relationships in accordance with their national practice and to limit their circumvention by atypical employment relationships' (Council of the European Union 2007). The European Parliament also argues 'for maintaining the traditional model of open-ended contracts', requiring for 'a macro-economic framework that supports job creation' (European Parliament 2007). The alternative understanding of flexicurity by trade unions is given below in more detail. The only European institute mentioned by Keune which shares the Commission's viewpoint at flexicurity is BusinessEurope, the European employers' organisation (De Buck 2007).

particularities, however, all the definitions can be summarized by analogy with the motto of Prague Spring 1968 ‘socialism with a human face’:

Flexicurity is a deregulation of labour markets (= flexibilisation) with ‘a human face’, that is, compensated by some advantages in social security and employment security, in particular, for the groups affected.

Commission's arguments for flexicurity

Let us analyse the arguments of the Commission's conception of flexicurity.

Globalisation

According to *Common Principles,* the necessity of flexibilisation is conditioned by 'the challenges and opportunities of globalisation' which 'is beneficial for growth and employment, but the change it brings requires rapid responses from enterprises and workers' (*Common Principles*, p. 8). At the same time it is said that

> Globalisation which is about increasing economic integration and trade flows in Europe but also throughout the world, is often seen as negative. Many see it as posing a threat to their jobs and livelihoods because they fear that companies will either move their operations abroad or employ cheaper outsourced labour from other countries or that cheaper labour will flood their national markets. In reality globalisation also brings much that is positive. It actually creates jobs and economic growth if companies and workers upgrade their skills and thereby increase productivity (*Common Principles*, p. 9).

Recall that the globalisation started in the 1970–1980s with the gradual opening of financial markets. It was believed that financial mobility will improve living standards in industrialized countries and will solve the poverty problem in the third world. Investments into countries with low labour costs promised high returns for investors and cheap import of qualitative goods. At the same time, developing countries were expected to profit from modern technologies and job creation (World Bank 2002).

These hopes were not realized (United Nations Development Programme 2002). With regard to the actual situation, the Club of Rome foresees three scenarios of the world future (Radermacher 2006a–b):

1. A big war for resources and markets with a drastic reduction of the world population (15% likelihood)
2. The rich benevolently sacrifice their excessive well-being to help the poor (35% likelihood)
3. The 'brasilianisation' of the world, meaning that the world population splits into a relatively small group of rich (people, countries) and a large group of poor (50% likelihood). Such a society is described in the novel *The Time Machine* by H. G. Wells (1895), where the bottom class of miserable Morlocks toils maintaining the underground machinery that keep the upper class of Elois docile and plentiful.

The contemporary development appears to best match the third scenario (United Nations Development Programme 2002). During the last 30 years living standards, even in the United States, visibly improved exclusively for top earners: the middle class improved its welfare by 35%, whereas the top 0.1% multiplied it by factor 5 (Krugeman 2006). As for developing countries, the poverty problem was not solved at all and the inequality even increased (Stiglitz

2002)[4]. Thus, the only social group which gains from the 'opportunities of globalisation' is the small minority of top earners who can hardly be considered the target group of the European Employment Strategy. Indeed, 'there must be more winners from the process of change' (*Common Principles*, p. 8).

All these trends are unacceptable for a large majority of population. As said by the 6th Director General of the UNESCO,

> The man has an almost unlimited capacity to suffer… It is in fact the injustice… which is intolerable (Maheu 1966, p. 34).

Flexibilisation

After globalisation has been presented as a positive trend, both documents of the Commission justify the urgent necessity of flexibilisation:

> Rapid technological progress, increased competition stemming from globalisation, changing consumer demand and significant growth of the services sector have shown the need for increased flexibility (*Green Paper*, p. 5).
>
> Adaptation [to globalisation] requires a more flexible labour market (*Common Principles*, p. 8).

However, the need for flexibilisation in 'response to the challenges and opportunities of globalisation' (*Common Principles*, p. 8) is not that evident. For instance, why does globalisation imply 'the shortening of the investment horizon' and 'the increasing occurrence of demand shifts' (*Green Paper*, p. 5) which require flexible employment? Conversely, globalisation as a long-term world-wide trend should guarantee long perspectives and stable demand.

Or, is 'sustainable growth with more and better jobs' (*Green Paper*, p. 3) really attainable due to flexibilisation? In fact, sustainable growth means a non-inflationary development which is cared of by the European Central Bank. According to the Philips economic law of inflation–employment proportionality, a low inflation is attainable at the price of high unemployment, implying that 'sustainable growth' leaves no room for 'more and better jobs'. Isn't the flexibilisation necessary for 'sustainable growth' just a substitute for latent unemployment and underpaid work? Neither is flexibilisation urgently necessary for productivity and growth:

> Employment protection legislation could affect production efficiency and productivity growth through multiple channels but available literature is inconclusive about the direction of the overall effect… [In particular] Nickell and Layard (1999) and Koeniger (2005) find a weak positive relationship between EPL strictness and both

[4] South Africa is one of most illuminating examples. After the apartheid has been abolished in 1994, foreign investments were no longer constrained by the political boycott and flew into the South African most profitable branches, mining and extractive industry. The economic openness made other branches, first of all agriculture with about 40% of labour force, non-competitive (Theron et al, p. 10). Having pursued the neo-liberal economic policy, the government neither safeguarded the redundant jobs, nor protected the released funds from export, and the jobs closed were replaced by no new ones but exported in the form of investments into more profitable enterprises abroad. The *extended unemployment rate*, that is, including discouraged jobseekers, increased from 30.8% in 1995 (Theron et al. 2007, p. 5) to 46% in 2007 (Decent work, Decent Life 2008), and the national Gini inequality coefficient rose from 0.68 in 1996 to 0.73 in 2001 (Leibbrandt 2005, p. 7); according to Theron et al. (2007, p.6), from 0.565 in 1995 to 0.577 in 2000. South Africa, having reduced a number of industries, became economically less independent, unemployed peasants overpopulated townships, and criminality tremendously increased. This globalisation scenario is typical for almost all developing countries.

> MFP[5] and labour productivity growth for samples of OECD countries (OECD 2007, pp. 69–70).

Or, is the following Commission's argument against employment protection convincing?

> According to analytical evidence (OECD 2007, pp. 69–72), strict EPL reduces the numbers of dismissals but decreases the entry rate from unemployment into work (*Common Principles*, p. 12).

Firstly, is this reciprocal effect really harmful? Why should 'the entry rate from unemployment into work' be increased at the price of dismissals?

Secondly, the reference to the OECD source is rather strained. In actuality it deals with labour *productivity*, and the impact of a strict EPL on employment is only mentioned as slowing down the labour turnover (which is not regarded as bad):

> There is some support for the argument that EPL slows the speed at which displaced workers find new jobs in expanding industries. Burgess, Knetter and Michelacci (2000) find that countries with stricter EPL have slower rates of adjustment of productivity to long-run levels, although they point out that the direction of causality could run from productivity growth to EPL strictness. More recent evidence suggests that strict layoff regulations reduce job turnover and, particularly, job destruction (Boeri and Jimeno, 2005; Micco and Pages, 2006; Haltiwanger, Scarpetta and Schweiger, 2006). Messina and Vallanti (2007) find that the negative impact of EPL on job turnover, job creation and job destruction is greater in industries where total employment is contracting and where firms cannot achieve substantial reductions in employment levels by purely relying on voluntary quits. However, the impact of EPL on firm growth appears to be, at best, small (Boeri and Jimeno, 2005; Schivardi and Torrini, 2003) (OECD 2007, p. 70).

Another example of misinterpretation of the role of flexibilisation is the reference to Ireland among 'Examples of flexicurity':

> The Irish economy and labour market have gone through a period of rapid change in recent years. Ireland has been transformed from a low-income, slow-growth economy with high unemployment rates into a country with high growth, high income and low unemployment. Ireland has a flexible labour market and is strengthening its investment in active labour market policies (*Common Principles*, p. 37).

Indeed, Ireland is a country with a traditionally weak employment protection. Its employment protection legislation has however recently become somewhat stricter (OECD 2004b, p. 117). Therefore, the Irish success cannot be due to flexibilisation. It is rather due to huge foreign investments from high-tech firms like IBM, Intel, Gateway, Fujitsu, and Motorola attracted by reforms of the late 1980s which transformed Ireland into a fiscal paradise:

> Unlike Margaret Thatcher in Great Britain, who confronted the powerful interest groups, [the prime minister] Haughey chose to sit down with them. What would later be called a miracle started with a social contract between the government, the employers, and the unions. The contract included tax cuts and some financial support for those worst off (Siegfrid 2004).

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[5] EPL abbreviates Employment Protection Legislation, which strictness is used to characterize the degree of flexibilisation, and MFP abbreviates Multi-Factor Productivity which 'measures average efficiency gains and technological change' (OECD 2007, p. 62).

Thus, the arguments for flexibilisation are not always consistent, conversely, the belief that flexibilisation stimulates development does not correspond to the actual state of knowledge.

Employability and lifelong learning

The security aspect of flexicurity — employment security — is supposed to be based on high employability due to lifelong learning justified by the reference to Eurobarometer (European Employment and Social Policy 2006): '88% of citizens said that regular training improves one's job opportunities' (*Common Principles*, p. 8).

However, 'improving one's job opportunities' is not yet employability, and employability is not yet employment security. Moreover, the 4th European Survey of Working Conditions 2005 which covers all 27 Member States exhibits some inconsistencies with the Commission's conception of flexicurity (Tangian 2007b–c, 2008):

- **Strong deficit of learning possibilities all over Europe**. Among 15 aggregate aspects of working conditions considered, *qualification and development possibilities* get the lowest evaluation, attaining but the 'bad level' in *all* European countries. This means that Europe is not yet prepared to base its employment policy on learning.
- **Necessity of learning deteriorates job satisfaction.** Statistical analysis reveals that good *qualification possibilities* and *qualitative management* are two factors which play negative roles in job satisfaction. It differs from the results of direct inquiries where learning is associated with employment perspectives and therefore evokes a positive reaction. In any case, the latent resistance to learning is not a good precondition for its efficiency.
- **Job stability and job security are most important for job satisfaction.** This aspect of working conditions is ranked first, leaving *income* at the 5th place. This empirical finding contradicts the assertion that 'individuals increasingly need employment security rather than job security', and 'more upward mobility' (*Common Principles*, p. 8). In a sense, just jobs are esteemed higher than 'better jobs'.
- **Employment flexibility is negatively correlated with employability.** This empirical finding contradicts the belief that flexibilisation is compatible with employment security. The interdependence of both factors can be explained as follows. Those with low employability are often employed flexibly rather than normally, finding themselves in the vicious circle of flexible–precarious work with little chances to escape.

Thus, the European Survey evidences for (1) low readiness of Europe to base its employment strategy on lifelong learning, (2) erroneous idea about the priority for employment stability over job stability, and (3) low compatibility of flexibility with security, even if restricted to employability.

Phraseology

Not the least instrument in any debate is the phraseology, although its influence is often invisible.

First of all, the **term *flexicurity*** itself evokes two positive associations, flexibility, that is, something easily updatable and adaptable, and security with its clear protective meaning. Therefore, flexicurity sounds rather as 'flexible security' — easily adaptable, or improved, security in response to risks of globalisation.

However, *flex-* refers to deregulation of labour markets, and *security* — not to the common understanding of social security as income security but to its considerably reduced version, employment security based on lifelong learning. A positively-shaped word turns out to be Trojan Horse with a rather unexpected content.

Second, the **positive style** of Commission's documents is noteworthy. For instance, the most debatable issue, flexibilisation, is presented in the following way (we quote the passage for the second time):

> Flexibility, on the one hand, is about successful moves (‘transitions’) during one’s life course: from school to work, from one job to another, between unemployment or inactivity and work, and from work to retirement. It is not limited to more freedom for companies to recruit or dismiss, and it does not imply that open-ended contracts are obsolete. It is about progress of workers into better jobs, ‘upward mobility’ and optimal development of talent. Flexibility is also about that flexible work organisations, capable of quickly and effectively mastering new productive needs and skills, and about facilitating the combination of work and private responsibilities (*Common Principles*, p. 10).

Indeed, what can be said against 'successful moves during one’s life course', 'progress into better jobs', 'optimal development of talent', or 'combination of work and private responsibilities'? At the same time, all the negative consequences are either concealed or mentioned as easily solvable, like the resulting segmentation of labour market, traps of precarious employment, permanent stress from efforts to remain at work under flexible contracts, increasing inequality, etc.

The intent to present everything in the positive light leads to logical inconsistencies. For instance,

> Employment protection legislation (EPL) refers to various regulations determining if and how a job contract ends … It is sometimes claimed that flexicurity seeks to abolish employment protection legislation. This is not the case. Flexicurity promotes an appropriate design of EPL to ensure that finding new employment is facilitated, especially when one cannot keep one’s job (*Common Principles*, p. 15).

In other words, the regulation of contract *ends* should facilitate finding *new employment,* that is, deals with contract *beginnings.*

Third, both the *Green Paper* and *Common Principles* have some **default assumptions** which direct the debate into a particular channel. Both sources speak about '*new* forms of labour' which naturally prompts the necessity of *new* legislation. In fact, the forms of 'atypical' labour discussed are *not new*; the only new is their increasing propagation. Both documents present the current deregulation of European labour markets as a self-evident necessity, so that the only questions to be discussed are how to legislate the relaxation of employment protection and how to implement lifelong learning as a guarantee of lifelong-employability. However, as have been shown previously, neither globalisation, nor flexibilisation as its derivative cannot be regarded as axioms.

To conclude the section on Commission's argument, the conception of flexicurity so long discussed — flexibilisation as response to globalisation, and new forms of security as a counterpart of flexibilisation — can be put in question. Therefore, the conception of flexicurity with its misleading label and strong flexibilisation bias should be improved. To attain social consent, it should be done with respect to the opinions of social partners outlined below.

Commission's pathway proposals

In p. 20 of *Common Principles,* eight 'common principles of flexicurity' are listed. They summarize the already introduced issues: 'flexible and reliable contractual arrangements, … comprehensive lifelong learning strategies,… effective active labour market policies, … modern social security systems, … balance between rights and responsibilities,… secure transitions from job-to-job, … gender equality,…climate of trust and dialogue', etc.

As for the financial dimension of flexicurity, the Commission dedicates no special flexicurity funding but plans to take money from other European social programs:

> All the measures that fall within the Employment Guidelines (including therefore flexicurity policies) are eligible for the European Social Fund (ESF) support, which will make available to Member States approximately € 70 billion in the 2007–2013 programming period, and in many cases the European Regional Development Fund can also provide financial support (*Common Principles*, p. 24).

At the same time, the Commission intends to partially charge workers with expenditures for their lifelong learning:

> In most countries workers can also be made responsible for investments in lifelong learning and the taking up of current training offers … Extra funding does not necessarily come from higher total public spending but also from a fair distribution of costs between businesses, individuals and public budgets (*Common Principles*, p. 24).

Besides these general guide-lines, *Common Principles* suggest four *pathways*, that is, four scenarios to implement flexicurity at the national level. Let us consider them in some detail, retaining their names as given in *Common Principles*.

Tackling contractual segmentation

This scenario is addressed to the **countries with a large fraction of atypical workers** (*Common Principles*, p. 28–29). It is suggested to equalize contractual arrangements for normal and atypical workers, and both 'limit consecutive use of non-standard contracts' and 'redesign the open-ended contract'. It should result in 'a progressive build-up of job protection', that is a gradual accumulation of rights with the tenure, according to the 'tenure track approach'. In other words, it should be a continuous transition from the test period into a stable employment.

This approach improves the situation of workers with no job protection at all, but it is hardly acceptable for others, because they loose job protection at early stages of employment. A similar idea was recently rejected in France, where it had been proposed to easily dismiss young people during the first two years with the given employer. It was clearly recognized that this device gives employers the right and even stimulates to arbitrarily rotate personal with taking no responsibilities.

In fact, restricting the consecutive use of temporary contracts with the liberty to dismiss workers at early stages of employment transforms 'traps of temporary employment' with the *same* employer into 'traps of temporary employment' with *different* employers, which is worse in every respect: for uninterrupted employment, for career, and for family life. The Commission's proposal might be a little bit more worker-friendly if the labour rights were accumulated during the working life, similarly to the severance payments in Austria accumulated during the whole career. However, the Commission's proposal does not go that far.

Developing flexicurity within the enterprise and offering transition security

This pathway is designed for **classical European welfare states** with a high proportion of stable jobs backed up by generous social security (*Common Principles*, p. 30–31). The underlying idea is that since

> company restructurings and outsourcing are becoming more frequent … combining good benefits with strong incentives for accepting jobs remains a challenge … especially when it comes to offering roads back into employment for long-term unemployed (*Common Principles*, p. 30).

According to the Commission's scenario, the dynamism of labour market can be improved by training the employees and restricting generous security benefits only to those who rapidly accept available job offers:

> Benefits for citizens and society would accrue from enhanced mobility of workers between enterprises. Workers will be more inclined to take risks associated with job transfers if benefits are adequate during transition periods and if prospects for new and better jobs are real (*Common Principles*, p. 30).

The restriction to *transition periods* instead of the whole duration of unemployment is explicit, going in line with 'make work pay' policies. What is however not clear, is the role of social security in stimulating workers to benevolently change employers. Normally, a benevolent change of employer is made with no unemployment gaps, so that generous benefits in this context have no address. Other measures look also rather superfluous:

> Benefit levels, although generally *adequate*, may *need to be raised [??]* during the first periods of unemployment, in order to improve the situation of workers in transition … Although institutional social dialogue is *well-developed*, trust between the social partners is *in urgent need of reinforcement [??]* (*Common Principles*, p. 31).

Thus, the idea is that the countries have to prepare themselves to flexibilisation but unemployed can be too fastidious to accept any job offer. Therefore, generous social security benefits should be restricted to short job-job transition periods. Thus, a destruction of social welfare state is compensated by unnecessary social security improvements for early unemployment stages.

Tackling skills and opportunity gaps among the workforce

This scenario is addressed to **countries with 'illiteracy and innumeracy problems** among the adult population' and a large unskilled workforce (*Common Principles*, pp. 32–33). Workforce training is 'targeted especially at the low skilled' with 'improvements in initial education… implemented as a priority'. It is suggested to fiscally favour employers for investing in learning but at the same time to charge workers for their personal development by establishing individual training accounts:

> Such accounts would allow workers to spend a certain amount of (working) time and money on their personal development, in cooperation with their employers (*Common Principles*, p. 32).

Learning is combined with the *make work pay* policy:

> Social security systems would offer incentives to low-skilled benefit recipients and monitor the conditionality of such benefits in order to ensure that taking up work pays, if necessary by providing supplementary benefits or gradual phasing out of benefits.

Again, the underlying idea of this scenario is to force people to take work but with a greater emphasis on learning of low-skilled. The puzzle of this scenario is its address to the European countries with 'illiteracy and innumeracy problems' (??). It can be relevant only to Malta (12.1% illiteracy rate), Portugal (6.2%), and Greece (4%); see the illiteracy statistics of the United Nations (2007/8). The message can also relate to immigrants with language deficiencies, which is however not said explicitly.

Improving opportunities for benefit recipients and informally employed workers

This pathway is addressed to **transitional economies** 'which have experienced substantive economic restructuring in the recent past' (*Common Principles*, p. 34–35). Although not pronounced, this scenario is likely addressed to the former socialist countries of Eastern and Central Europe with serious problems to be solved urgently. It is mentioned that these countries have inadequate or inefficient employment protection and a large informal sector. Besides, their social security systems are outdated, and the social dialogue should be revitalised. Respectively, the measures proposed are: offering 'adequate levels of protection', 'regularising informal work', 'further reforms of labour taxation', 'tailor-made assistance…to successful re-employment of job seekers', improving 'portability of social security entitlements', and 'creation of comprehensive employer and employee organisations and their merging into larger bodies'.

The intent of the Commission is to put flexicurity on the agenda of ongoing reforms. However, comparing to the former socialist society where almost all employed were civil servants, the transition to market economy is already a significant flexibilisation of employment. The Commission's recommendations on flexicurity are therefore aimed at speeding up this painful process regardless of the low adaptability of labour force and social system.

The Commission's initiatives will create most favourable conditions for Western investors. However, the consequences will be the same as in developing countries under globalisation: closing less profitable industries, overpopulation of large towns with unemployed, and export of capital instead of contributing to the country of origin (see Footnote 2).

In fact the new Member States need rather protective measures to make their economies competitive, like it has been done in China. After the transition, their markets can be gradually opened with no risks for economy and population. It also would constrain superfluous labour migration to the West and job migration to the East, which already created a number of problems in the old Member States.

To conclude, the four pathways enhance flexibilisation of labour markets, proposing to relax the rigid regulation of normally employed and to improve the status of atypically employed, following the example of the *Dutch Flexibility and Security Act 1999* (*Common Principles*, p. 37). The pathways suggested differ only in the balance between learning and elements of the *make work pay* policy aimed at stimulating unemployed to take jobs. No exception is made even for transition economies, which however need special solutions. At the same time, as noted by Keune (2008a, p. 96–97, repeated in 2008),

> …In no country [the Commission] does recommend an increase in employment protection, suggesting that even in the countries where it is lowest its level remains adequate.

and

> Although in its more general statements … the Commission calls for adequate unemployment benefits, in its country recommendations there is not one case where it calls for the improvement of such benefits, even though in a number of countries they are clearly very minimal in terms of replacement rates, coverage or duration.

At the same time, no suggestion is made for policy instruments, so that all four pathways remain too general and little specific.

Position of trade unions

As has been formulated by Hans Adriaansens as early as in 1995 (Wilthagen and Tros 2004, p. 173) and repeated 11 years later by the Commission in *Employment in Europe 2006*

> The main thrust of the EU recommendation on flexicurity is to encourage a shift from job security towards employment security (European Commission 2006a, p. 78).

Labour rights against social measures

The concept of flexicurity as proposed in the Commission's documents may appear adequate: one commodity (job security) is exchanged for another commodity (security measures), and the exchange rate should be negotiated. This apparently natural prerequisite leaves trade unions with no chance of winning. In fact, the default assumption that everything can be bought and sold does not always hold! In a sense, it is suggested that workers' social health (= the right to remain at work) be exchanged for a treatment (= social care, e.g. in the form of advanced security measures). In other words, give your working hand and get a prosthesis instead. But can a prosthesis, whatever its value, replace a healthy hand?

From the trade union viewpoint this exchange of labour rights for security measures is absolutely inappropriate. Even if each particular agreement between social partners seems more or less fair, a succession of compromises could lead away from the social status quo and employees might ultimately get nothing, or very little, for their pains. The consequences could be similar to those in the familiar tale of the man who exchanges a horse for a cow, then the cow for a sheep, and so on until he finds himself with nothing but a needle, which he loses on the way home.

Trade unions doubt that better social guarantees can adequately compensate a higher *risk* of job loss. The ensuing disadvantages can never be fully compensated. Besides, it is unreliable to entrust workers' welfare to the welfare-giver, the state. Any political change can result in social cuts (as is currently the case in Germany). Employment protection, on the other hand, guarantees jobs and consequently a stable income, even during recessions and political crises (Bewley 1999).

A hope that lifelong learning is sufficient to compensate the shortage of stable jobs is at least naïve. An illuminating example is moving industries from Western Europe to the East with the last case is dismissing 2300 workers of *Nokia* in Bochum, Germany, to open a factory in Romania (Spigel Online 2008). The reasons are neither insufficient skills of German employees (who have been regularly trained by *Nokia*), nor their low adaptability to change, but cheap labour in Romania. Training can be efficient in case of single dismissals but not if dismissals are massive. No training can guarantee employment if there are many skilled but jobs are lacking.

The most dangerous trend is moving 'blue collar' jobs to poorer countries while taking over exclusively the managerial functions. However, what should happen to 'blue collars' in the rich West? Obviously, not all are inclined to an office work, even if being lifelong trained. Should all of them move to poorer countries? And can this trend reduce the inequality gap between countries and between individuals?

As for learning itself, unions are convinced that its most efficient form is *learning-by-doing*, and training should not be separated from jobs but integrated in them. The idea of *complementary* out-of-job training is therefore too weak even to back up the implementation of Commission's conception of flexicurity.

New type of industrial relations

There are also doubts as to the social fairness of flexicurity. Every step towards a higher level of labour flexibility meets the interests of employers who receive this legislative commodity free of charge, although it provides a number of advantages, including financial advantages. The business world gets rid of restrictions, managers improve performance by rotating and squeezing personnel, and firms gain higher profits. All expenses are covered by the state — costly reforms and additional social security expenditure. This type of flexibilisation scenario therefore turns out to be a long-term indirect government subsidy/gift to firms. Since the state budget originates from taxpayers, employees contribute considerably to this subsidy/gift.

An innovative feature of this type of industrial relations is active intermediation by the state. Industrial relations were formerly restricted to the *employer-employee* axis. The employer purchased working capacity rather than final products and used this device to obtain added value. Now industrial relations no longer constitute an axis but a circle *employer-employee-state-employer* with a sophisticated money loop through legislation, social security and tax systems. Now the relationship between an individual employer and an individual employee is extended to all employer-employee relations, the added value being redistributed through all these systems.

Moreover, the former division 'employers earn much but are exposed to risks' and 'employees earn little but are protected' is going to be reconsidered. Employers wish to share the burdens of competition with employees, and politicians seek to shift the responsibility for employment from the state to individuals (Cf. with the intent to partially charge workers for lifelong learning in p. 24 of *Common Principles*). Regretfully, the very idea of solidarity is getting to be restricted to those who are unable to receive a sufficient income.

Sustainable development

The coexistence of different social systems was as necessary for the world as several opposite parties are needed for a democratic country. Lacking any political alternative, the European capitalism has shifted to the right, and this process continues. Trade unions, even those which did not collaborated with communists, much profited from their political presence with far-going claims. It worked by the same principle as formulated by the father from Truffault's film *400 Blows* (1959): "You ask for 1000 francs, so expect 500, will be glad for 300, get 100." With no communists who asked for 1000, it became difficult for trade unions to get even 100. For instance, in West Germany it was often said that the third side in collective bargaining was the DDR.

From the trade union viewpoint, sustainable development in the globalised world − the main argument for flexibilisation − is necessary as long as it improves the living and working conditions of *employees*. If a worker’s well-being is not enhanced under ‘sustainable development’ and better labour market performance (if any) is achieved at the price of stress and lack of confidence in the future, ‘sustainable development’ can be called into question. Are higher industrial productivity and competitiveness in fact the primary human goals? Why is sustainable development placed above social values? In other words, is it more important to be economically rich rather than to be socially healthy?

One has to distinguish between goals and instruments to attain these goals. The much promoted sustainable development is presented as a goal of the European Union which, in particular, requires flexibilisation as an instrument to attain it. However, in the perspective of increasing income differences, the sustainable development looks rather as an instrument itself. As follows from the facts and statistics mentioned earlier, the sustainable development is aimed not only to 'meet the challenge of India and China' (Coats 2006, pp. 5, 23, OECD 2005, p. 25, UK Presidency of the EU 2005) but primarily to *sustain and multiply the superiority of the rich over the poor*. Indeed, if the European well-being was higher before the 'sustainable development' and flexibilisation, what are they for?

Trade unionist understanding of flexicurity

The position of unions towards the Commission's position on flexicurity has been clearly shown by the demonstration before the opening of the European Conference of the Portugal Presidency *Flexicurity: Key Challenges*, Palace of Congresses, Lisbon 13.09.2007. The slogans *Jobs with rights / social Europe*, *The government lies: flexicurity = dismissals* and *No development for Portugal with flexicurity* were on posters both in English and Portuguese (see photos).

Trade unions are inclined to consider flexicurity rather as a measure for protecting weak workforces but not at the cost of disadvantages for ‘normal’ employees. The specificity of the trade union perspective of flexicurity is reflected by the following definition

> *[Flexicurity is] social protection for flexible work forces understood as "an alternative to pure flexibilisation" (Keller and Seifert 2004, p. 226) and "to a deregulation-only policy" (Klammer 2004, p. 283) but not at the price of relaxing employment protection of normally employed.*

The reaction of the European Trade Union Confederation (ETUC) to the Commission's flexicurity proposals is summarised by Keune (2008a, p. 97–98, repeated in 2008b):

> [ETUC] argues in a position paper that business in Europe already enjoys high adaptability, that the European economy is already flexible and that job creation has the upper hand over job destruction (ETUC, 2007). Rather, the ETUC identifies the prevalence of precarious employment and excessive flexibility as key problems and puts forward the improvement of the quality of jobs as a key objective. Also, like the European Parliament, it argues for employment security as a complement to, rather than an alternative for, job security, for open-ended contracts as the general rule and for upgrading the rights of atypical workers. Where labour market policies are concerned, the ETUC argues for a high level of benefits combined with active labour market policies, including training, as well as for including groups presently not covered in social security schemes (ibid.). High benefits and active labour market policies, it maintains, provide security as well as being positively associated with labour market participation. Finally, the ETUC argues for the integration of flexicurity policy with growth and employment creation-oriented macro-economic policy, given that flexicurity by itself does not have employment-creating capacities.

Trade unions consider the question of flexibilisation in a much brighter perspective than just of its institutional aspect. For instance, it is often overlooked that the role of employment protection legislation in the 'flexicure' Denmark is in a sense replaced by the 'informal' intermediation of the trade unions, which are the strongest in Europe with a density of 80% in 2004 (European Foundation 2007, p. 6 and *Common Principles*, p. 17). On the other hand, some countries tolerate a considerable fraction of their labour force to work with no contracts at all: in Cyprus — 42%, in Malta — 41%, in Greece — 32%, etc.; see the extraction from the 4th European Survey of Working Conditions made by Seifert and Tangian (2007, p. 16, 2008). It means that the employment protection legislation does not cover the whole of labour force, and, again, there are some 'informal' aspects to be considered.

Demonstration before the opening of the European Conference of the Portugal Presidency *Flexicurity: Key Challenges*, Palace of Congresses, Lisbon 13.09.2007 (Photos: A. Tangian)

In particular, the question of flexibilisation includes recruitment practices:

> When asked about their chances of finding new employment if made redundant, respondents react very differently across Europe. For example, French workers, with high EPL, rate their chances as very low while Danish workers, with moderate EPL, rate them as very high (*Common Principles*, p. 14).

It is true that one's chances to be reemployed differ across Europe, but it is caused rather by national traditions. In France as well as in Germany and some other countries unemployed are esteemed quite low as candidates for jobs. Unemployed are generally regarded as losers who failed to fulfil professional requirements. Employers prefer to deal with already employed candidates or with young people.

Another point to mention is the trust between social partners:

> Integrated flexicurity policies are often found in countries where the dialogue — and above all the trust — between social partners, and between social partners and public authorities, has played an important role (*Common Principles*, p. 18).

It is remarkable that the 'flexicure' countries Denmark and the Netherlands as well as Belgium, Norway, Sweden, Spain, and UK referred to as good practice examples (*Common Principles*, p. 15, 19, 21, 23, 36–37) are monarchies with their traditional values and trust in the upper authorities.

To conclude the section, trade unions do not mean that the idea of flexicurity is bad but that its Commission's conception is hardly acceptable. The proposal for a labour market reform should be made more consistent, better balanced and take into account, besides legislation, also national traditions, informal aspects, and opinions of social partners.

Reform proposals for a consistent implementation of flexicurity

Contradictions between EU policies

There are several inconsistent European policies, to name a few:

European welfare policy suggests certain living standards independent of employment. It assumes stable labour market performance and is backed up with a strong social security system (Esping-Andersen 1990; Auer and Gazier 2002).

Flexibilisation of employment relations (3rd guideline for the European Employment Strategy; see European Commission 2005) is aimed at improving the competitiveness of the European economy and achieving sustainable development. It entails in particular the relaxation of employment protection legislation. This relaxation contradicts the employment security that is assumed in the conception of the welfare state.

Flexicurity (European Commission 2006–2007): it is hoped that the above-mentioned contradiction will be resolved by compensating the relaxation of labour protection through improvements in social and employment security, intended as a *flexicurity* trade-off.

Make work pay (8th guideline for the European Employment Strategy, European Commission 2005): this policy aims to encourage the unemployed to participate actively in the labour market. Similar to flexicurity, the 'make work pay' policy is also a trade-off, but in this case it is a trade-off between social protection and maximisation of the gain from moving into work (OECD 2004a, p. 92). This policy contradicts flexicurity because it includes the reduction of security benefits which, according to flexicurity, should be improved.

The *European policy of respecting civil society initiatives* assumes that non-government organisations significantly influence policy-making. In particular, the opinion of trade unions has always played an important role in labour market regulation. In recent discussions, the role of trade unions and collective agreements has often been called in question as an obstacle to flexibilisation.

As can be seen, the policies set out above are contradictory. Since they interact through the social security system, their consistency means consistency with that system. But here the reverse is the case: social security is to be made consistent with these policies.

The social security system has evolved over many decades. It is unduly complex, particularly where it interacts with the tax system, and it is quite difficult to change any of its components without affecting others. The unprecedented decline of European social security despite institutional improvements (Tangian 2005)[6] shows that only radical reform can make it actually efficient and resolve policy contradictions.

Flexinsurance

A possible solution could be *flexinsurance* together with elements of the *basic minimum income model*.

Flexinsurance assumes that the employer's contribution to social security should be proportional to the flexibility of the contract (Tangian 2006, 2007a). Progressive charges to constrain dismissals are already used in the US unemployment insurance based on *experience rating* (Graser 2002). The experience rating is the frequency of dismissals in the enterprise which determines the employer's contributions to unemployment insurance: the more frequent the dismissals, the higher the contributions. It is analogous to motor insurance whose price is influenced by the frequency of accidents. The US practice has two important properties: (1) it operates on the financially fair risk-compensation basis, and (2) it constrains the general freedom of the employer to dismiss. The shortcoming of the US experience rating is that the risk of becoming unemployed is linked to dismissals only, and pays no regard to the duration and other particularities of the work contract.

Another example of bridging legislation with taxation/insurance is the Austrian Severance Act 2002 (*Abfertigungsrech*t) recognised as good practice both by the European Commission (2006b, p. 10 and 2007, p. 36) and the OECD (2006, p. 99). The severance payment is accumulated throughout the whole career of employees in special severance accounts which are accessible upon dismissal or retirement. Employers make obligatory contributions to these accounts of 1.53% of salaries paid and no longer have to pay severance payments in the event of dismissals. Since dismissals were relatively easy in Austria in the past, severance pay was the major constraint. After the reform, dismissals became a quite formal procedure, and employers obtained the freedom to make quick labour force adjustments for the flat 1.53% 'flexibilisation tax'.

From the employees' viewpoint, the *Abfertigungsrecht* is a kind of insurance against being fired. The European Commission (2006b, p. 10, 2007, p. 36) argues that its advantage is that a voluntary change of a job does not mean losing the severance entitlement for a long tenure,

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[6] The following example gives an idea of national decline in spite of institutional improvements. Suppose that there are two groups of unemployed, one receiving a high level of state aid − €700 a month, and one receiving a low level of state aid − €300 a month, and that the groups constitute 90% and 10% of the unemployed, respectively. The national average is thus 700*0.9 + 300*0.1 = €660/ month. Supposing further that an institutional improvement is introduced, i.e. all receive 10% more aid, but at the same time, due to mobility between the groups, the first group is reduced to 50% and the second increases to 50%. The national average is then 770*0.5 + 330*0.5 = €550/month, that is to say, in spite of the general institutional improvement by 10% the national average decreases due to mobility from €660 to €550/month, i.e. by 16.6%.

because the severance accounts are retained (regardless of the access to them which depends on certain conditions). The weakness of the *Abfertigungsrecht* is that it is case-independent and does not constrain firings. The interests of employers are little affected by dismissals, because they seldom have to pay severance payments in addition to the obligatory social contributions.

Compared to these prototype practices, flexinsurance would have the following advantages:

- *(Financial fairness)* A higher risk of atypical employees becoming unemployed is fairly compensated, depending on every particular contract, and contributions to social security correspond to the expectation of unemployment benefits.
- *(Reasonable employment flexibility)* Social security contributions conditioned by the type of the contract affect employers' labour costs. Flexinsurance thereby stimulates employers to hire employees on more favourable conditions, but does not rigidly restrict labour market flexibility.
- *(Legislative advantages)* Flexinsurance is a flexible instrument for 'regulating the labour market deregulation'. Adjusting the employers' contributions needs no new legislation but just administrative decisions. It is similar to regular changes in payments to statutory health insurance.
- *(Social justice)* Providing advantages from flexibilisation to employers free of charge does not look socially just in the background of increasing inequality. Therefore, flexinsurance is also a policy measure to meet the principle of social justice. The importance of social *feelings* is also emphasized in *Common Principles* (p. 14): 'Active labour market policies, too, have a positive effect on the *feeling* of security among workers'.

Basic minimum income

The basic minimum income model assumes a flat-rate income paid by the state to all residents, regardless of their earnings and property status (Polanyi 1944). Examples of this model appear in some social security branches, such as childcare allowances or old-age provisions. For instance, *Kindergeld* in Germany is paid to all parents. Several basic minimum options apply to retirement in Switzerland (Brombacher-Steiner 2000), and legislation on solidarity pensions is currently underway in Chile (Chile Presidential Advisory Council 2006). In a sense, the concept of a basic minimum income is incorporated into the minimum wage (Schulten *et al*. 2006). The additional budget expenditure incurred in the basic minimum income can be covered by:

- flexinsurance,
- higher taxation of high earners (to cover the flat-rate income), and
- funds released by reducing the number of civil servants currently working in social security (since the system becomes simpler).

Workplace tax

The workplace tax is supposed to be imposed on the employers who offer bad working conditions. Similarly to the green tax in the environment protection which stimulates enterprises to consider the natural environment, the workplace tax should stimulate enterprises to consider the working environment. Indexing working conditions can be regarded as measuring the 'social pollution' and used to determine the tax amount. A fraction of the tax can be paid directly to the employee as a bonus for bad working conditions.

However, its significant fraction should be paid to the state to keep the situation under the statutory control.

The workplace tax is particularly topical for atypical employees who, as has been shown, have worse working conditions. If 'more and better jobs' should be attained 'through flexibility' then their quality should be controlled and secured.

Analogy with regulation of immigrant workers

Additionally, the regulation of atypical employment can also learn from the analogy with regulation of immigrant workers, who are 'less integrated' in the mainstream than the nationals. For instance, there can be quotas for atypical contracts (like immigration quotas), employers can be required to justify their necessity (like the obligation to employ own nationals in the first turn), issuing a permanent contract after a number of successive temporary contracts (like the permanent residence permit after a few years of temporary residence), etc. These measures are aimed at reasonably constraining employment flexibility without excluding it in case of its real necessity.

Constraining financial markets

The last factor − but not the least − in preserving the European welfare state is action to constrain the European financial markets. In fact, foreign investments actually mean export of jobs from Europe to other countries. Employers are given a legal instrument for exerting pressure on European governments: 'If you do not relax employment protection according to our requirements, we shall move jobs abroad'. Having liberalised financial markets, European governments paved the way to loss of control over labour markets. Since the way out is generally through the same door as the way in, financial markets must be constrained to some extent in order to restore control − if social priorities are to be respected.

Contribution to European policies

As we show below, flexinsurance and certain elements of a basic minimum income model can contribute to resolving inconsistencies between European policies.

European welfare policy: the basic minimum income model is consistent with the concept of the welfare state, since it guarantees certain unconditional living standards and relieves social tension.

Flexibilisation of employment relations: no longer being restricted by law, flexibilisation is constrained, but this is achieved financially, with flexinsurance, which is much 'softer' than rigid juridical prohibitions.

Flexicurity: the basic minimum income model means significant progress in social security and therefore contributes to flexicurity: 'more security for more flexibility'. At the same time, flexinsurance can regulate flexibilisation 'softly' in order to maintain the flexicurity trade-off.

Make work pay: Since the basic minimum income model guarantees statutory payments regardless of income, moving into work means a pure profit. In this case, moving into work is always attractive because out-of-work benefits are retained. On the other hand, the fact that there are no social benefits excludes any penalty cuts. The penalty measures of the 'make work pay' policy are replaced by a more efficient, benevolent motivation (cf. A. Carnegie's maxim: 'There is no way to force somebody to do something other than to make him want to do it'). Consequently, the 'make work pay' policy gains from the proposed measures and becomes compatible with flexicurity.

Respecting civil society initiatives: introducing flexinsurance means respecting the trade union position on constraining the total deregulation of labour markets. Introducing elements of basic minimum income is also welcomed by the unions. In fact it guarantees that the unemployed will not accept every job offer, as is intended with the penalising measures of the 'make work pay' policy, and that they therefore will not become 'strike-breakers' in the longstanding trade union struggle for good working conditions and fair pay.

There are some other European policies not yet mentioned which can gain from the reforms mentioned.

Innovation policy requires a highly qualified manpower which requires long working experience, as opposed to short-time tenures under flexibilisation. A loss of high quality of European products can be hardly compensated by their better quality-to-price ratio thanks to better firms' performance. Indeed, at the world market, the niche of highest quality-to-price ratio is already occupied by Asian firms, including Japan. The niche of cheap but still quality goods is occupied by the United States. Europe has traditionally manufactured highest quality products at high prices. If Europe quits its established niche, it will even more strongly compete with Asiatic and American firms with quite questionable outcomes, contrary to the Lisbon Agenda 2010. Therefore, constraining flexibilisation contributes to the competitiveness of European economy.

Improving living and working conditions is one of prime goals of the European Union. Flexibilisation, however, increases the in-work poverty, and 'make work pay' deteriorates the situation of unemployed. Working conditions and career prospects of flexibly employed are generally worse than that of normally employed. Besides, family life is hardly consistent with flexible employment with unstable income and high workplace mobility.

Demography and immigration. The flexibilisation of employment relations with its negative impact on family life results in lower birth quotas and, consequently, in population aging. The need in an additional workforce to retain the living standards comes into contradiction with existing quotas of immigration policy.

Conclusions

It should not be hoped that the great challenge of labour market structural change can be answered by minor reforms of professional training. The level of reform should correspond to the level of desired change. Otherwise, the situation will be similar to the one mocked by Saltykov-Shchzedrin (1826–1889): 'How to make our unprofitable enterprise profitable, not changing anything in it?'

Side-by-side with Danish/Dutch flexicurity and Austrian *Abfertigungsrecht,* a package of measures is proposed in the given paper. The flexinsurance, workplace tax, basic minimum income, and constraining financial markets are aimed at solving the current social and policy contradictions in the European Union.

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