

# FLEXICURITY IN RESPONSE TO THE NEW LABOR MARKET ARCHITECTURE

Ioana Coralia Zavera, PhD student  
The Bucharest University of Economic Studies

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**Abstract.** Flexicurity, which has become a key element of European labor law policy, seeks to establish a harmony between flexibility and social security, providing what is best for the "two worlds." The European employment regulation was considered too strict by policy-makers, which led to policy recommendations to promote a more flexible labor market. The diagnosis has also been confirmed internationally in the period following the 2008 economic crisis. High protection on the labor market is now considered harmful and also responsible for the increase in precarious jobs, as well as increase in social costs. Debates should turn away from the deregulation and re-regulation of inclusive labor market measures and focus on regulation as an important mechanism to ensure a level playing field between capital and labor but also between workforce groups. Moreover, segmentation of the labor market, seen as a significant division between secure and unsecure jobs, is linked to issues such as macroeconomic efficiency, workers' welfare and repercussions for social cohesion. Therefore, the present paper aims to analyze the role of flexicurity as a direction in restoring the employment policy order.

## Introduction

In a period dominated by globalization, both workers, companies, industries, governments, and European Union as a whole face a double bond or have two-way expectations. On the one hand, there is an acute demand for labor market flexibility, increasing employment and work organization, and on the other hand, there is a strong demand to ensure the safety of employees, especially of vulnerable groups.

These two-tier requirements, have been included in the European Union policy since 1993 in the *White Paper on Growth, Competitiveness and Employment* and explicitly formulated in the *Green Paper - Partnership for a New Labor Organization* in 1997, which states that "for employees, management, social partners and decision-makers, the key is to strike a balance between flexibility and security."

This binomial, flexicurity-security<sup>1</sup> was included in a series of EU Summits (Essen, 1994; Amsterdam, 1997, Lisbon, 2000), becoming one of the targets of the European Employment Strategy and a major challenge of the European Social Model<sup>2</sup>. In fact, the European Union's mission, as formulated in Lisbon, clearly reflects the ambition to increase flexibility and security, aiming to "become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and better social cohesion."

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<sup>1</sup> Wilthagen, T. (2002), *Managing Social Risks with Transitional Labour Markets*, Labour Markets, Gender and Institutional Change. Essays in Honour of Guenther Schmid. Cheltenham: Edward Elgar, pp. 264-289

<sup>2</sup> Klosse, S. (2003), *Flexibility and Security: A Feasible Combination?*, European Journal for Social Security, 5, 3, pp. 191-213

Achieving a balance between flexibility and security is particularly evident in the European Employment Strategy. At the same time, there is a new connection or a new paradox that reflects the traditional capital-labor link. Taking into account the performance and growth objectives, but also competitiveness, it is clear that greater flexibility and a labor market are needed<sup>3</sup>, while security is viewed from the perspective of a social policy that emphasizes the importance of maintaining social cohesion within society<sup>4</sup>.

The prospects of the European Union in creating and maintaining a balance between flexibility and security are optimistic. From the perspective of European Commission on industrial relations, “all Member States have tried to improve labor market flexibility by increasing employment and vocational training policies, and modernizing the way the labor market works means striking a balance between flexibility and security, which is reflected at Community level in the framework agreement concluded by the social partners on part-time work”<sup>5</sup>.

However, there are studies that convey some pessimism about the new compromises in bargaining flexibility. Based on a comparative study, Ozaki claims that “labor market flexibility has led to a significant erosion of workers’ rights in core areas that address employment and income safety and stability in living and working conditions. As for the compromises resulting from the negotiation of flexibility, there was no attempt to change the paradigm of economic and social policy.”<sup>6</sup> So, taking this new relationship into account, decision-makers, trade unions, employers’ organizations need new patterns and concepts to harmonize incompatible goals designed to increase flexibility and security.

### **Flexicurity - vector of integration**

Flexicurity is indeed a catchy term, which requires a further definition in order to apply it in the decision-making process. It is therefore a strategy that deliberately attempts to increase flexibility in the labor market, work organization and labor relations, on the one hand, and on the other, increase security (employment and social), especially for vulnerable groups<sup>7</sup>. The presented definition focuses on synchronization, coordination and vulnerable groups. However, a labor market strategy cannot be considered a form of flexicurity with just two elements over a certain period of time, and flexibility

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<sup>3</sup> European Central Bank (2002), *Labour Market Mismatches in Euro Area Countries*, Frankfurt

<sup>4</sup> Laeken Declaration of 15 December 2001 on the future of the European Union

<sup>5</sup> European Commission (2000), *Industrial Relations in Europe 2000*, Luxembourg

<sup>6</sup> Ozaki, M., ed. (1999), *Negotiating flexibility. The role of the social partners and the State*, International Labour Office, Geneva

<sup>7</sup> Wirthgen, T.; Rogowski, R. (2002), *Legal Regulation of Transitional Labour Markets*, The Dynamics of Full Employment: Social Integration through Transitional Labour Markets, Cheltenham: Edward Elgar, pp. 233-273

policies are usually launched to adapt the labor market, but also social security arrangements, and institutions considered too 'strict' or protective, thus hindering economic development and competitiveness.

Flexicurity therefore acts in the direction of promoting more open, responsive and inclusive labor markets, so that segmentation is no longer a problem<sup>8</sup>. The term refers to both employed and unemployed population. In order to reduce the gaps between Member States, but also to accelerate the integration process, it is intended to create better opportunities, economic incentives and support measures to have easier access to work or steps to help inactive people, unemployed, those who have undeclared or unstable jobs in finding a stable and legally safe job<sup>9</sup>. In the context of the Fourth Industrial Revolution, it is important to support all those who have a job in order to be able to work, to advance and to face the vertical and horizontal transitions, from the workplace and between jobs.

Moreover, flexicurity does not refer only to a single labor market, to a single active life model or to a single policy strategy, but needs to be adapted to concrete situations of each Member State. A balance between the rights and responsibilities of all parties involved is necessary. With common principles, each Member State should develop its own flexicurity models.

Taking into account the experience of the European Union and the need for an integrated approach, in order to achieve a high degree of flexicurity it is necessary to fulfill the following conditions:

- ✓ the possibility of making work contracts and forms of work organization more flexible, so as to avoid the phenomenon of discouraging and withdrawing low-skilled workers from the labor market, while at the same time professionally trained people be able to adapt faster;
- ✓ improving the content and forms of lifelong learning, as prolonging the duration and improving the quality of vocational training systems lead in the long run to increase activity rates and reducing gender discrimination. This stimulates the creativity of human capital and investment in it;
- ✓ active labor market policies can help increase labor mobility, significantly reducing the cost of social protection through passive methods of mitigating imbalances in the labor market;
- ✓ modernization of social protection systems can contribute to the activation of labor supply by avoiding the poverty trap, by supporting reconciliation between work and family life. An active person with a good physical and mental condition will be more likely to be employed by a firm

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<sup>8</sup> Stanef, R., et al. (2012), *Lifelong learning a way to reduce development gaps between rural and urban areas*, Procedia - Social and Behavioral Sciences 46, pp. 4508-4512, Barcelona

<sup>9</sup> Wilthagen, T.; Tros, F. (2004), *The Concept of "Flexicurity": A new approach to regulating employment and labour markets*, Sage Journals, Vol 10, Issue 2

because he works with a higher return.<sup>10</sup>

### **Flexicurity and improving quality of life**

In many countries of the world, educational standards and life expectancy are improving, allowing millions of people to overcome poverty and penetrate the global labor market. Once with the phenomenon of aging population spread across Europe at a rapid pace, most of the countries enjoy growing young populations, being considered markets of the future. Therefore, the standards of global prosperity and demographic change impose economic and social imbalances in Europe, driven by the phenomenon of globalization and industry 4.0. There are questions as: How can high wages and complex social systems be supported when economic actors produce similar goods and services but at lower costs? How does wealth generate, attract investment and manage resources so that it can respond to growing demands and expectations and provide a better way of life to future generations? The answer is still the same: prosperity will arise with the production of goods and services at a higher price than those produced elsewhere. The economy has evolved towards the development and delivery of innovative products and services with a high added value. Also, the concern for the welfare state has grown, providing stimulus for social innovation. But the question is whether social systems are prepared for new challenges. It is important to remember that educational standards have not decreased. At formal education level, in Europe, the same abilities are passed on to the same or slightly increasing number of students. And international comparisons show that basic skills do not alter, but states are rapidly improving their educational performance, and the result lies in placing Europe at the center of the global education package.

Questions also arise on EU measures to invest in human capital education, which alongside education is the center of the knowledge economy. The level of education and skills contribute to achieving social cohesion, prosperity and sustainability. Europe has been a pillar of education performance and a model for other countries, but developments in recent decades have led to a fall in resources, both material and financial, a reduction of the responsibility of schools and universities, and of attention to regions that are rapidly evolving into education systems. European Union has set 5 ambitious targets - on employment, innovation, education, social inclusion and energy - to be achieved by 2020 through Europe 2020 Strategy. Each Member State has set its own targets, so concrete actions at the EU and national level are at the core of the strategy. So smart growth refers to improving

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<sup>10</sup> Chenic, A.Ș. (2013), *Aspecte ale flexicurității pieței muncii în modelele mediteranean și anglo-saxon*, Economie teoretică și aplicată, Volumul XX (2013), No. 4(581), pp. 65-80

performance in: education (encouraging people to learn, study, improve and adapt their skills); research & development (creating new products and services that generate growth and jobs and respond to social challenges); digital society (using information and communication technologies).

Education and training in the development of flexicurity in the labor market and the EU strategy encourages Member States to work together and learn from each other. The long-term strategic objectives of education policies are: bringing lifelong learning and mobility into the realm; improving the quality and efficiency of education and training; promoting equality, social cohesion and active citizenship; increasing creativity and innovation, including entrepreneurship, at all levels of education and training. EU-level activities are developed to respond to different levels of education - expanding opportunities for learning mobility or strengthening partnerships between education and training institutions and society; promoting multilingualism, innovation, creativity and adoption of information and telecommunication technology.

Available sources argue that improving flexicurity in the labor market and adapting to different jobs related to transferability of skills is a problem that has not received sufficient attention and for which there is little information available, which leads to limited interest.<sup>11</sup> The description of processes, practices and methods designed to improve labor mobility through skills and their transferability is based on both the relevant literature and the results of an EU survey, along with practical examples. Methods of promoting labor mobility used by educational institutions include: self-knowledge, career counseling, assessment centers, coaching, mentoring, IT applications etc.

Education is, therefore, one of the main engines that causes labor market imbalances and leads at the same time to the segmentation of the labor market.

### **Segmentation of the labor market: an ongoing challenge**

When talking about the segmentation of the labor market, it is about the division of European markets between safe and insecure jobs, a division institutionalized by the creation and expansion of non-standard forms of promotion, in particular temporary employment.<sup>12</sup> No static analysis is required. A labor market is segmented if there are significant barriers to mobility. A large number of fixed-term or part-time workers is not a problem as long as there is a high mobility of secure jobs. However, segmentation occurs if workers feel 'caught up' in unstable and insecure jobs interrupted by periods of unemployment.

At the beginning, segmentation was seen as a consequence of employers' strategies for

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<sup>11</sup> Angelescu, C. et al. (2012), *Providing labor market flexicurity and quality of life through better education and professional training*, *Procedia - Social and Behavioral Sciences* 46, pp. 4560-4566

<sup>12</sup> Marx, P. (2015), *The political behaviour of temporary workers*, Palgrave Macmillan, Basingstoke

strengthening socio-cultural divisions.<sup>13</sup> Since the 1990s, the dominant perspective has been to explain segmentation as a result of labor market institutions. Labor protection legislation has been considered a barrier to the labor market.<sup>14</sup> The reason is that employers anticipate business costs, which stimulates the employment of a large number of temporary workers. The opposite reasoning that labor protection deregulation could reduce segmentation and insider-outsider divides is reflected in current policies. It is important to note that segmentation problems lie in two major areas: macroeconomic efficiency and worker welfare.

Regarding the macroeconomic effects, there are indications that an increase in temporary employment has made difficult an increase in productivity (as labor investment is not encouraged) and has not led to an increased employment (because secure jobs are being replaced by temporary jobs).<sup>15</sup> Also, job insecurity and temporary contracts, in particular, hamper the health and well-being of workers.<sup>16</sup> The stress caused by such social problems not only causes health problems but also affects other aspects of people's lives, including cognitive skills, family formation and parenting.<sup>17</sup>

Another problem that arises is the incapacity of European welfare states to prepare workers who do not have a stable job. Political representatives from countries with a strong labor market segmentation tend to create social policies in an exclusive way<sup>18</sup>, which means that employment structures and welfare state institutions become stronger by generating disadvantages in the labor market. Such dualism is opposed to the notion of flexicurity, which has been promoted for some time by the European Commission. So, the welfare state compensates disadvantages of the labor market and facilitates mobility. While literature on the political economy is skeptical about the prospects for modernizing social security systems in line with flexicurity<sup>19</sup>, there is little evidence of further concerns about this. However, the crisis has highlighted the insufficient protection of temporary workers in many countries, and efforts are needed to improve it.

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<sup>13</sup> Doeringer, P.B.; Piore, M.J. (1971), *Internal labor markets and manpower analysis*, Heath Lexington Books, Lexington

<sup>14</sup> Bentolila, S. et al. (2012), *Reforming an insider-outsider labor market: the Spanish experience*, IZA J. Eur. Labor Stud. 1(1), pp. 1-29

<sup>15</sup> Boeri, T. (2011), *Institutional reforms and dualism in European labor markets*, Handbook of Labor Economics, Elsevier, Amsterdam

<sup>16</sup> De Cuyper, N. et al. (2008), *Literature review of theory and research on the psychological impact of temporary employment: towards a conceptual model*, Int. J. Manag. Rev. 10(1), pp. 25-51

<sup>17</sup> Mani, A. et al. (2013), *Poverty impedes cognitive function*, Science 341(6149), pp. 976-980

<sup>18</sup> Palier, B.; Thelen, K. (2010), *Institutionalizing dualism: complementarities and change in France and Germany*, Politics Soc. 38(1), pp. 119-148

<sup>19</sup> Rueda, D. (2014), *Dualization, crisis and the welfare state*, Socio-Econ. Rev. 12(2), pp. 381-407

## Conclusions

In industrial relations and labor law, both European and national, a new concept has emerged. There are voices stating that the new report is nothing but a manifestation and a modern formula of the traditional relationship between labor and capital, dressed in ideological and rhetorical words as ‘balance’, ‘reconciliation’ and ‘adaptability’ that inappropriately suggest compatibility or coexistence<sup>20</sup>. At the same time, new concepts, policies and strategies have developed and continue to develop that deal with connections empirically tested. But there are also voices opposing the thesis that the European social model needs development, improvement and consolidation to form a counterweight to the European monetary and economic model, which is a sufficient reason to devote a research agenda to new concepts, such as flexicurity. The issue of the influence and impact of different forms of coordination and the relationship between national and international learning processes on flexicurity is also crucial from an academic perspective. The question arises as to whether employment systems develop on several levels to ensure both flexibility and security.

There are also challenges in terms of political and economic feasibility of reforms. Firstly, political preferences matter. If segmentation is addressed by reducing the social rights of the ‘insiders’, it may be difficult to form democratic majority for such proposals. Moreover, the extension of social protection for vulnerable workers could meet resistance from the low-risk majority with the high costs of these reforms. Secondly, macroeconomic and budgetary constraints play an important role. In some countries, demand for labor is insufficient to provide safe jobs for all workers.

Progress is needed in flexicurity, lifelong learning and mobility, which contribute to the implementation of strategies, development of national qualifications frameworks at European level and flexible learning arrangements.

By improving the quality and efficiency of education and training, all citizens should be able to acquire key competences and all levels of education and training must become more attractive and effective. Promoting equality and social cohesion should enable all citizens to acquire and develop the skills and competences needed to enter the labor market, as well as to promote intercultural dialogue. So it is important that policies pursue the formation of the four deliverables when they consider a successful human capital strategy – create, attract, keep and activate it. Two conditions are necessary for funding: sufficient, efficient and well targeted and governance that ensures transparency.

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<sup>20</sup> Eichhorst, W. et al. (2017), *Labor market reforms in Europe: towards more flexicure labor markets?*, Journal for Labour Market Research

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