

Flexicurity – the broken promise

Frank Hoffer, ILO, 27 July 2011

"What's in a name? That which we call a rose
By any other name would smell as sweet."

It was the tragedy of Romeo and Juliet that names do matter and all too often politicians try to change names instead of substance, when an old name is discredited. Most famously, under Margaret Thatcher the British nuclear reprocessing plant known as 'Windscale' was rebaptised as 'Sellafield', although it continued to dump nuclear waste into the Irish sea.

'Flexicurity', it turns out, is the Sellafield of labour market policies in Europe. At the height of market euphoria after the fall of the Berlin Wall, everybody seemed to propagate flexibility and deregulation as the solution to the problems of unemployment, low growth, inflations, and lack of innovation. However the great promises of flexibility did not materialise. Growth remained below the long-term average, unemployment stayed rather high, and productivity growth remained sluggish. Only profits started to grow, while wages and real investment stagnated. In the European context of inclusive societies, social dialogue, comprehensive welfare states and labour rights, flexibility became an increasingly hard sell.



This was the moment when flexicurity entered the stage. As part of a model provided by Denmark, the European public was told that there might not be a free lunch, but there is a "win-win" situation. Basically, flexicurity boils down to the promise that "No one has a right to his/her job, but everybody deserves a chance for a job".



The reasoning goes as follows: Globalisation and enhanced competition requires greater flexibility by companies. They must have the ability to hire and fire with the lowest possible transaction costs to adapt as quickly as possible to changing market conditions. Workers need to accept this. However, giving up workplace protection should be compensated through the provision of social security that guarantees income security while strengthening employability through active labour market policies. In order to incentivise workers to take up another job, unemployment benefits would decrease the longer the worker claims the benefits. The latter is euphemistically described as "activation policy."

Denmark, the country with the highest tax revenue as share of GDP in the world, was propagated as the role model for this new policy by the same people who advocate for lower taxes to increase economic dynamism. The Danish model is based on a specific

27 July 2011

and rare policy consensus that the cost savings achieved through greater flexibility at enterprise level need to be accompanied by high taxes to pay for the security that is no longer provided by enterprises, but by the state. And yet the implicit high tax burden of flexicurity policies were largely absent in the debate.

When assessing flexicurity, two questions need to be answered: First, is the analysis right that rigid labour markets are the root cause of the Eurosclerosis? Second, did governments actually do what they were supposed to do under flexicurity?

The concept of flexicurity assumes that the unemployment problem is caused in the labour market and hence can be cured in the labour market. The causes of unemployment are attributed either to labour market rigidities like severance pay, protection against dismissal, etc., or to the notion that unemployment is ‘voluntary’, meaning that it is largely defined by the reservation rate, i.e. the level and the conditions of unemployment benefits. Attempts at increasing the level of employment through expansionary monetary policies, fiscal policies, and public investment are rejected as temporary relief measures that just crowd out private investment or result in higher inflation. Sectoral or centralised wage setting are also not seen as instruments to reward productivity gains of successful companies, but as a drag on enterprise flexibility. A lack of overall aggregate demand does not even enter the picture.

After the great recession of 2007 and in the light of substantial underutilisation of capacities, it seems rather doubtful that labour market supply side measures will make much of a difference. They will rather result in a further downward spiral of wages and working conditions. The proponents of flexicurity would argue that the security dimension of this concept would limit this risk. This is based on the implicit assumption that governments are able to maintain and even increase taxes to Danish levels during the downturn. In reality, the resource requirements for genuine flexicurity policies seems to be difficult to reconcile with the constant pressure on tax reduction and the massive decline on capital taxes throughout Europe.



Therefore it comes as no surprise that flexicurity has not been practised in Europe – that is if flexicurity implies that workers get higher social security and unemployment provisions in return for lower work place protection. But this exchange has just not happened. Instead, governments have pursued flexibility policies by simultaneously reducing work place protection and unemployment benefits. I am not aware of major policy initiatives that increased social security provisions in recent years in order to compensate for the reduction in protection against dismissal or the increase in atypical and largely precarious employment.

Flexicurity largely disguises the shift of the flexibility burden from the entrepreneur to the worker. In the old days, entrepreneurial profits were justified because the entrepreneur was the risk taker. He could not enjoy the “nine to five” standard working day of the employees. Under the flexicurity regime, workers are requested to

27 July 2011

give up this stable employment relationship. They are expected to accept instant redundancy, high mobility, constant changes of profession, temporary contracts, income volatility etc. . What this injection of fear, insecurity and unpredictability means for peoples' lives, their families and their communities is not part of the equation.

After more than a decade of flexicurity, it is time to face up to reality. Flexicurity did not deliver. While preaching flexicurity, the EU is in fact promoting labour market flexibility that results in precarity for millions of workers throughout Europe. The nice name cannot disguise the reality that might more accurately be called: flexexploitation.

Further resources

ILO Publications

- ILO. 2010. [Employment and social protection policies from crisis to recovery and beyond: a review of experience \(pdf 819 KB\)](#), an ILO report to the G20 Labour and Employment Ministers Meeting, Washington, DC, 20–21 April 2010 (Geneva).
- ILO. 2010. [Employment policies for social justice and a fair globalization \(pdf 1.55 MB\)](#), Report VI, International Labour Conference, 99th Session, Geneva, 2010 (Geneva).
- ILO. 2010. [The impact of the crisis on employment and the role of labour market institutions](#) (pdf 650 KB) (Geneva).
- ILO. 2010. [What role for labour market policies and institutions in development? : enhancing security in developing countries and emerging economies](#) (pdf 417 KB) (Geneva).
- ILO. 2009. [Facts on flexicurity](#) (pdf 229 KB) (Geneva)
 - [Français \(pdf 240 KB\)](#) • [Español \(pdf 246 KB\)](#)
- ILO. 2009. [Flexicurity in Belgium : a reform proposal based on economic principles](#) (pdf 265 KB) (Geneva).
- ILO. 2009. [Recovering from the crisis : a Global Jobs Pact](#) (pdf 93.22 KB) (Geneva)
 - [Français \(pdf 105.47 KB\)](#) • [Español \(pdf 107.50 KB\)](#)
- ILO. 2008. [The global employment challenge](#) (pdf 5.16 MB) (Geneva)
 - [Español \(pdf 8.30MB\)](#)

27 July 2011

- ILO. 2008. [*Are there optimal global configurations of labour market flexibility and security? : Tackling the "flexicurity" oxymoron*](#) (pdf 348 KB) (Geneva).
- ILO. 2008. [*The influence of the EU on the evolution of national employment models*](#) (pdf 460 KB) (Geneva).
- ILO. 2007. [*Modernization of labour law : a current European debate*](#) (pdf 231 KB) (Geneva).
- ILO. 2007. [*Security in labour markets : combining flexibility with security for decent work*](#) (pdf 108 KB) (Geneva)
 - [Français \(pdf 236 KB\)](#) • [Español \(pdf 231 KB\)](#)
- ILO. 2004. [*A fair globalization : creating opportunities for all*](#) (pdf 2 MB) (Geneva).
 - [Français \(pdf 2.25 MB\)](#) • [Español \(pdf 1.18 MB\)](#)

ILO Videos

- [Germany: Keeping Their Wages Through Kurzarbeit](#) - 

ILO Websites

- [Bureau of Workers' Activities](#)
- [International Institute for Labour Studies](#)
- [Global Jobs Pact](#)
- [Employment promotion](#)
- [ILO Job Crisis Observatory: Employment promotion](#)