

# Macroeconomic analysis of Flexicurity with Regard to the Crisis

1. Introduction: Flexicurity
2. Crisis response to flexicurity
3. Discussion of alternative reforms

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# 1st period in flexicurity history

## **1995–2001 (security for flexibly employed)**

It is the time span between the first use of the word 'flexicurity' and the first references to it by the EU. This period is characterized by labour market reforms in the Netherlands and by launching the academic flexicurity debate

During this period, flexicurity is understood rather as a policy to protect atypical workers from negative consequences of labour market deregulation

European social partners do not participate in the debate. Later, after having been involved in the debate, trade unions promoted just this understanding of flexicurity

# 2nd period in flexicurity history

## **2001–2006 (flexibility–security trade-off)**

Till the publication of the first European strategic document—*Green Paper* at the end of 2006.

During this time the idea of flexicurity as a flexibility–security trade-off is shaped

The EU makes occasional references to flexicurity as balance between labour market flexibilization and social developments. The OECD and European Commission positively mention flexicurity in their analytical publications *Employment Outlook* and *Employment in Europe*, finding the flexicurity approach appropriate for implementing their employment strategies. European social partners start to be involved in the discussions

# 3rd period in flexicurity history

## **2006–up till now (security through flexibility)**

In the *Common Principles*, flexicurity is regarded as providing 'more and better jobs', because it improves economic competitiveness and thereby contributes to labour market performance

Flexibility is understood as security through flexibility, or even as *flexibility security*, that is, securing flexibility by adapting labour force to flexible employment

With some reservations, the EU adopts the flexicurity approach in this understanding as its official policy, discusses it with national governments and social partners, and supports flexicurity research. Flexicurity gets a vivid response in academic and public debate

# Empirical flexicurity studies by Hans Böckler Stiftung

Viewpoint	Countries	Years	Statistical data sources
Neo-liberal	16 European OECD countries	1990–2003	OECD (1999, 2002, and 2004) <i>Employment Outlook</i> , and European Commission (2004) <i>MISSOC</i>
Trade-unionist	16 European OECD countries	1990–2003	OECD (1999, 2002, and 2004) <i>Employment Outlook</i> , and European Commission (2004) <i>MISSOC</i>
European welfare state	22 European OECD countries	1995–2004	OECD (2005) <i>Tax-benefit models</i> , and Eurostat (2005) <i>Labour Force Survey</i>
Working time	Europe-15	2000	European Foundation. <i>Third European Working Conditions Survey 2000</i>
Precariousness of work	Europe-27, NO, CH, TR, HR	2005	European Foundation. <i>Fourth European Working Conditions Survey 2005</i>
Quality of work and lifelong learning	Europe-27, NO, CH, TR, HR	2005	European Foundation. <i>Fourth European Working Conditions Survey 2005</i>
Collective bargaining	Netherlands	1995–2007	FNV and University of Amsterdam (2008) <i>DUCADAM</i> data Set
Macroeconomic effects with regard to the actual crisis	22 European OECD countries, USA, Turkey, Japan	2008–2010	European Commission (2010) <i>AMECO</i> , Eurostat (2010) <i>Labour Force Survey</i> , OECD (2010) <i>OECD.Stat</i> , and IMF(2010)

# Composite Indicators

## 1. Flexibility

Flexibility of regular employment (- EPL), OECD score

Flexibility of temporary employment (- EPL), OECD score

Share of atypical employment in total employment, %

Incidence of involuntary part-time workers in part-time employment, %

## 2. Security

Total public social expenditure, % GDP

Social security, pay-offs, % GDP

## 3. Gravity of Economic situation

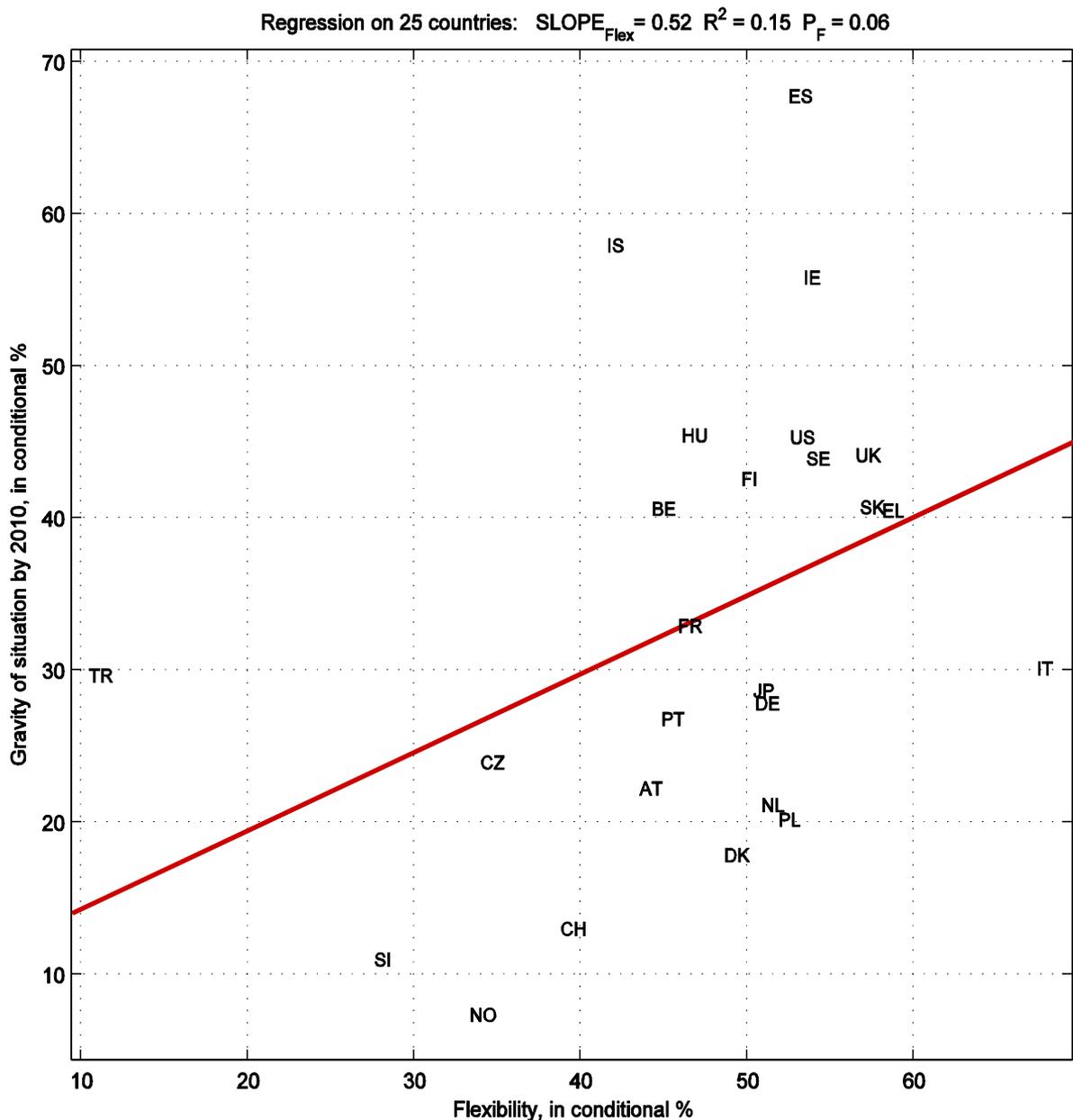
Output gap, % GDP

Public debt, % GDP

Bailout packages, % GDP

Unemployment rate, %

# Gravity of situation by 2010



**Commission's understanding of flexicurity as flexibility**

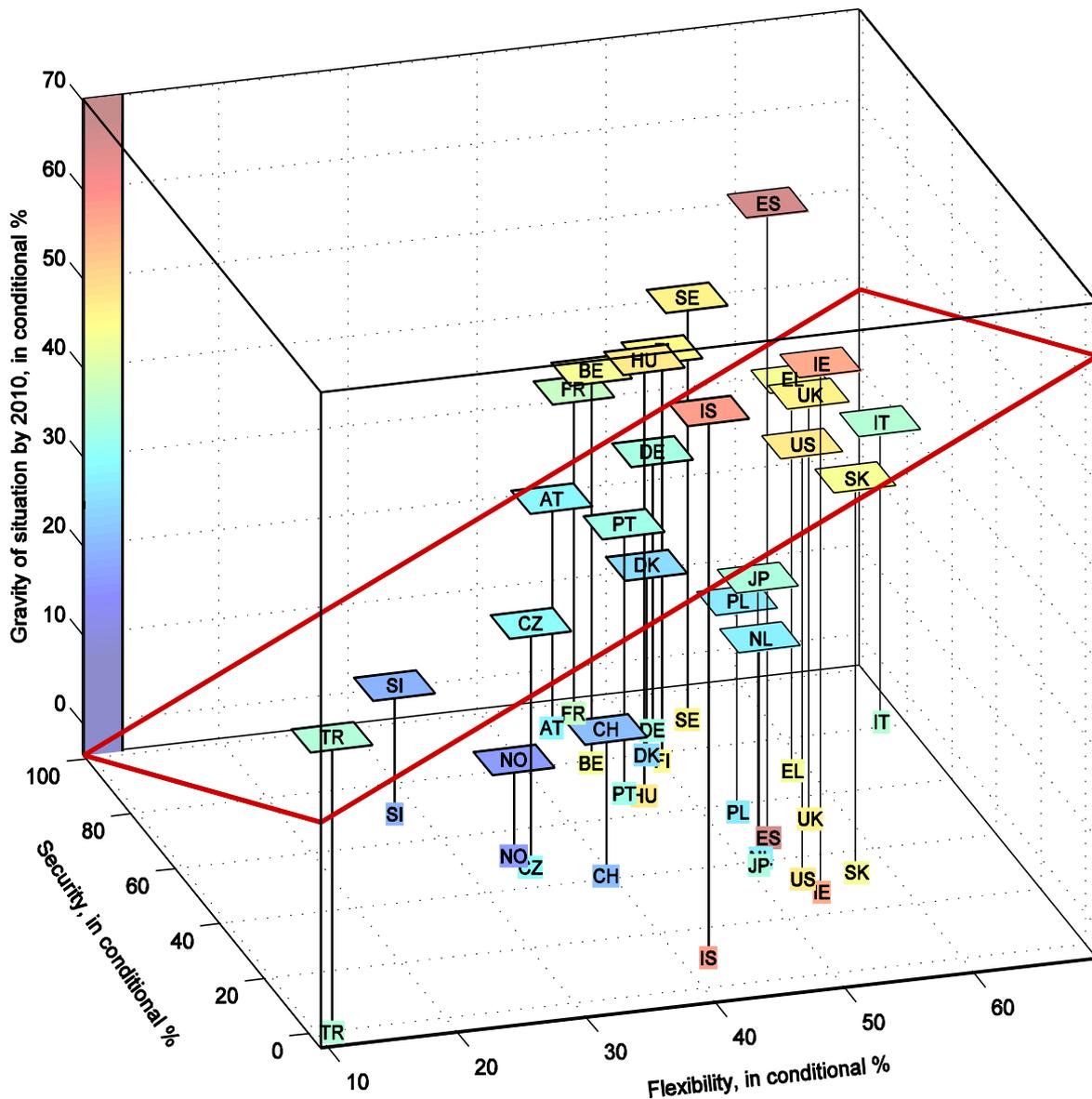
**$P_F = 0.06$ :**  
dependence between *Flexibility* and *Gravity of situation* is significant

**$R^2 = 0.15$ :** cloud of observations is thick

**Interpretation:**  
*Gravity of situation* is linked to *Flexibility* but there exist some other explaining factors

# Gravity of situation by 2010

Regression on 25 countries:  $SLOPE_{Flex} = 0.70$   $SLOPE_{Secur} = -0.24$   $R^2 = 0.29$   $P_F = 0.02$



**Common understanding of flexicurity as flexibility+security**

**$P_F = 0.02$ :** dependence between *Flexibility+security* and *Gravity of situation* is highly significant

**$R^2 = 0.29$ :** cloud of observations is better aligned

**Interpretation:** *Gravity of situation* is also explained by poor security



# Summary of the model

## **Flexicurity does not pass the test imposed by the crisis**

Empirical evidence disproves the Commission's assertion that 'flexicurity strengthens the European Growth and Jobs Strategy' (*Common Principles*, p. 3)

Explanation: High flexibility encourages risky market behaviour, because failures can be recovered by easy restructurings with labour adjustments. In turn, it makes firms more credit-dependent and sensitive to the performance of the financial sector

Advanced social security, public works and other forms of state participation make the economy less dependent on the private sector and protect it from occasional shocks

A better alternative to flexicurity could be 'normalization' of employment (reducing flexibility), which would also reduce social security expenditure

# 1st measure: Flexinsurance

Employer's contribution to social security is proportional to the flexibility of the contract

Compensation of unemployment risks

Motivation to hire employees more favorably with no rigidly restricting labour market flexibility

Flexible instrument to regulate deregulation: adjustments need no new legislation

Moral aspect: social justice

Prototypes of “dismissal taxes”

Progressive: American *experience rating*

Flat: Austrian *Abfertigungsrecht 2002*

# 2nd measure: Workplace tax / bonus

The worse working conditions (“social pollution”),  
the higher the tax paid by the employer (and/or  
tax bonus for good working conditions)

Stimulation of improving working conditions, particularly  
of flexibly employed

Instrument to improve production quality

Compensation of health and safety risks at work and of  
bad working conditions

## Prototypes:

French precariousness premium at the end of a  
temporary contract (10% of total earnings)

Green tax which stimulates enterprises to consider the  
natural environment (social environment)

# 3rd measure: Basic income

An unconditioned flat income paid by the state

Security measure / administrative simplification

Measure against bad jobs

‘Positive’ measure to *make work pay*

Discharging social tension

Prototypes:

*Kindergeld* in Germany paid to all parents

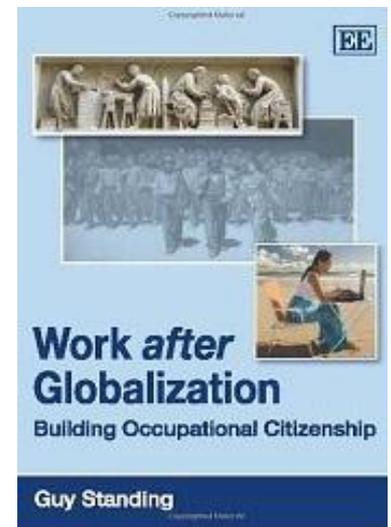
Solidarity pensions in Switzerland and Chile

Minimal wage

Distinction from neo-liberals:

Basic income for a free choice to answer ‘No’  
rather than a negative tax to stimulate demand

Budgeting: income redistribution and money  
released from reducing social security staff



Standing G (2009) *Work After Globalization*. Cheltenham, Edgar Elgar.

# 4<sup>th</sup> measure: Politicization and reallocation of unions

No strong left parties → political engagement of unions, or creating union's parties

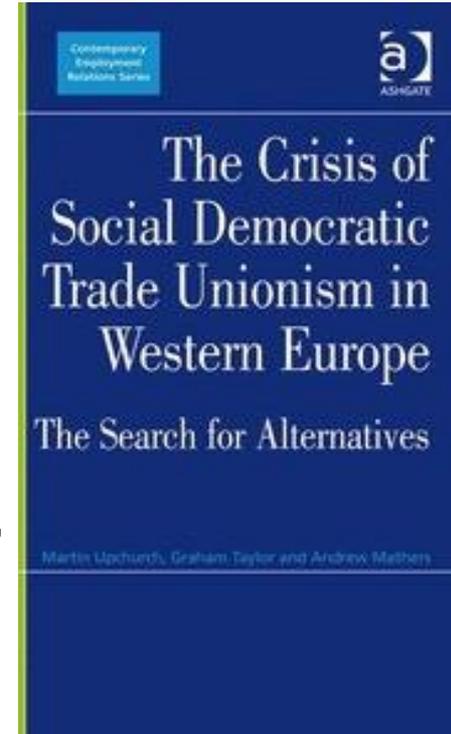
Multi-national companies are unattainable for national unions → creation of union multi-nationals (e.g. Coca-Cola union, Ford union)

Prototypes:

Works councils in international corporations Daimler, Danone, Lego, Volkswagen

However, these initiatives within the concept of corporate social responsibility leave the last word to employers, and trade unions' influence remains very limited

Upchurch M, Taylor G, Mathers A (2009) *The Crisis of Social Democratic Trade Unionism in Western Europe*. Aldershot, Ashgate.



# 5th measure: Constraining finances

Nationalizing the financial sector and/or making it non-profit, reducing its functions to means of payments:

restoring the control over labour markets (easy foreign investments = export of jobs → employers say to the government: 'Relax employment protection, otherwise we export jobs and you remain here with an army of unemployed'.)

favourable conditions for SMEs

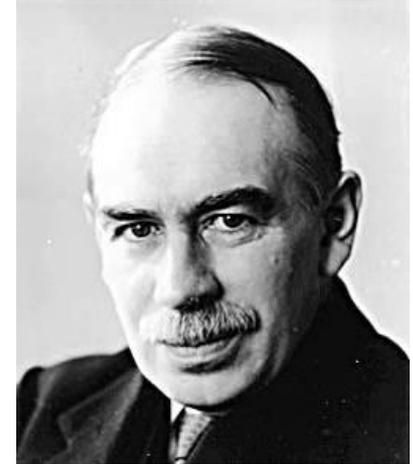
no leakages of resources from the real economy

preventing crises

Prototype suggestions:

Multilateral barter clearing system *Bancor* (Keynes, 1940s)

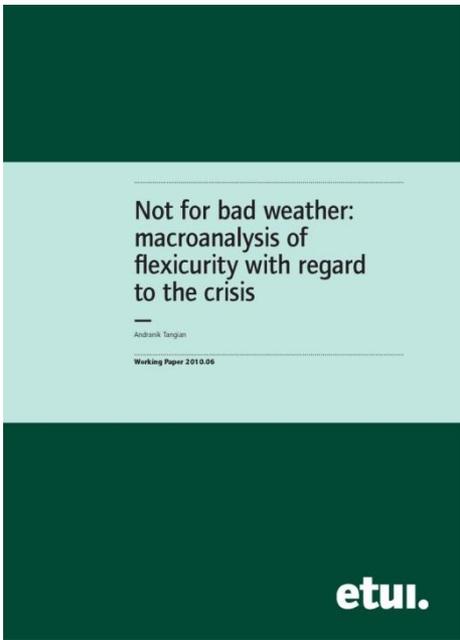
Adaptation of the IMF 'Special Drawing Rights' as a global reserve currency (Zhou Xiaochuan, 2009).  
Similar ideas also by UN and IMF



# Main references

Tangian, A. (2010) *Not for bad weather: Macroeconomic analysis of flexicurity with regard to the crisis*. Brussels, ETUI working paper 2010.06

Tangian, A. (2011) *Flexicurity and political philosophy*. New York, Nova Publishers

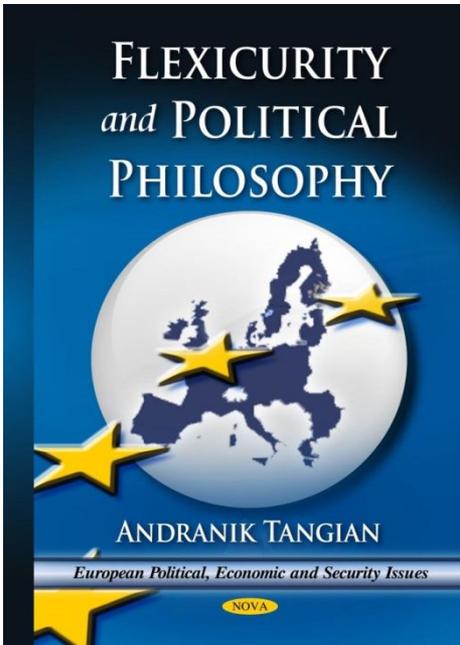


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etui.



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*and* POLITICAL  
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