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Flexibility and security in the EU labour markets: the effects of labour market policies and 'flexicurity' regimes

Abstract:

EU labour markets are increasingly faced with major challenges such as the rapid pace of international economic integration and technological progress. These factors call for flexible working arrangements to allow for swift adaptation to change. On the other hand, this is to be achieved without a systematic erosion of employment security and job quality. Therefore, the EU calls on Member States to adopt institutional configurations in the labour market that better combine the requirements of flexibility and security - in other words "flexicurity".

The chapter presents a preliminary taxonomy of EU Member States in a reduced number of 'flexicurity' systems based on national policy configurations. This is done by performing Principal Component Analysis and Cluster Analysis on a set of policy indicators. Security is characterized by spending on active labour market policies and unemployment benefits, while flexibility/employability is characterized by Employment Protection Legislation and Life Long Learning. By correlating those two dimensions with variables linked to labour market performance, flows/transitions and social cohesion, the analysis indicates that flexibility and security are complementary, i.e. simultaneous progress in both does not lead to any major trade-off on socio-economic outcomes. This points to the favourable effects of reforms packages encompassing several policy tools at the same time in order to reap the benefits of policy interactions.

However, our classification should be refined by including further dimensions of flexibility (such as flexibility within the firm) and security. Moreover, a shift of the flexicurity mix may face strong opposition by "insiders" in the labour market, so that reforms need to be designed taking the political economy dimension into account, with particular regard to the system of industrial relations.