OBSERVATIONS ON EUROPEAN FLEXICURITY POLICIES

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Background

The aims of much of the legislation surrounding the Single Market and competition policy are threefold. Firstly, it aims to create a free European market. Secondly, it continues to mould the structure of the European economy. Finally, it promotes the international competitiveness of European firms. The fundamental economic rationale of the Single Market programme is to enlarge the European economic market and thus allow firms to be both big enough to reap economies of scale and numerous enough to promote competition. Even if economists can demonstrate that, on balance, the economy as a whole benefits, the fact remains that some jobs will be lost and some individuals will incur substantial and long-term losses as a result. Therefore, a more integrated and globalising Europe, which additionally has to adapt to the pressures of an ageing society (Funk 2004), is of some concern to workers in Europe, and many believe it threatens their jobs.

A recent Eurobarometer study showed that increased competition, particularly globalisation, has created anxieties amongst workers in Europe. (For more information covered in this and the following paragraphs, see European Foundation … 2007) Many employees believe that developments associated with globalisation threaten their jobs. It is puzzling, however, that Swedes and Danes were most optimistic in this respect. As both countries are small open economies with a high exposure to external competition, it is noteworthy that workers in these countries are less likely than those in other European Union (EU) countries to believe that globalisation represents a serious threat to jobs.

Such attitudes are certainly one of the reasons why the Danish policy of 'flexicurity' has, for some time now, been a very popular concept that others have sought to put into practice. Indeed, this policy was recently adopted by the European Commission (EC) after it was first broached at the European level by the so-called Kok Report, which was named after a former Dutch Prime Minister, Wim Kok, who chaired the High Level Group established by the European Council to review the progress towards meeting the Lisbon objectives (European Commission 2004). This policy approach may provide an answer to the puzzle of why anxiety in Denmark and Sweden stemming from globalisation is relatively low, as both countries are regarded as role models for flexicurity. This reputation rests, in part, on their strong labour market records, especially with regard to employment rates. It may be argued that if workers are both compensated temporarily for the loss of their job and have good chances of gaining a new one, they are less prone to be anxious about the prospects of losing their jobs. More concretely, in such a flexicurity approach, policy has a role to play in promoting structural adjustment in line with market forces, which is welfare enhancing from an economic point of view. In addition, it needs to ameliorate the negative consequences of the ensuing labour market adjustment on the workforce. These basics are also part of the EC's definition of flexicurity. In short, flexicurity is said to exist when employers can hire and fire comparatively easily (that is weak unemployment protection), and when, at the same time a relatively high safety net that includes effective activation policies and appropriate policies that help to ensure that the provision of skills is in line with market demands so that those who lose their jobs are protected. Denmark is often regarded as the paragon role model of flexicurity that is based on these pillars.

Security and flexibility are mutually reinforcing in this model. A judicious mix can bring about greater numerical and functional flexibility in the workforce (for details, see, for example, Hardes 2008) and within the economy more generally for a given level of security. Employment protection and unemployment benefits are regarded as functional substitutes in this model, as both can be used to protect workers against losing their jobs.

Empirical evidence appears to demonstrate that decreased job protection when combined with increased unemployment benefits that aim to offset the loss of job security seems to make the economy more adaptable, whilst still protecting workers. Clark and Pastel-Vinay (2006) find empirical evidence to support the contended advantage of the flexicurity approach. They discerned a positive correlation between perceived job security in both temporary and permanent private jobs and unemployment insurance benefits. At the same time, the relationship with employment protection legislation strictness was negative. This implies that workers feel less secure in countries where jobs are more protected. Using a partial equilibrium labour search model and cross-country evidence, Bell and Tawara (2008) confirm additionally a potentially positive role of active labour market policies and an adverse effect of employment protection legislation, whilst passive labour market policies fail to have any effect on perceived employment security. Such results may well help to explain the positive attitude towards globalisation in Denmark and Sweden.

Taking these observations as starting points, this essay addresses three issues related to the recent debate on European flexicurity policies. Firstly, after some brief remarks on macro-economic issues, this article highlights the most important stylised facts of European labour market performance compared to that of the United States (US), as the EU's inferior record was the starting point for recent efforts to catch-up with the US. Secondly, the paper very briefly surveys different labour market experiences and outlines the different varieties of social models. Moreover, it assesses whether the principal ideas of flexicurity can potentially be regarded as the smallest common denominator of the controversially discussed European Social Model (ESM) as the EC wants to implement flexicurity policies in all member states. Thirdly, the question arises, with regards to the opportunities and risks the flexicurity strategy at the EU level contains, as it is the basis of amendments to the European Employment Strategy (EES) in early 2008. This article concludes by providing an evaluation of the related issues of if – and, if so, under what conditions – the concept of flexicurity can be regarded as beneficial in attempts to solve labour market problems in the EU.

A few remarks on macro-economic issues

Due to the fact that according to most econometric analyses the largest part of unemployment in Europe is non-cyclical/persistent or structural, questions of fiscal and monetary policy will not be dealt with here. A few general remarks will have to suffice in this respect. (For more on the following, see Lindbeck 2006) When we understand unemployment as the combined effect of a malfunctioning labour market, welfare state arrangements that create (dis)incentives for labour supply and deficiencies in macro-economic stabilisation policies, the implementation of policies that only stimulate the supply of labour will be insufficient to improve the labour market outcomes. Higher employment will only result if the demand for labour increases simultaneously. To the extent that unemployment problems are cyclical, cautious macro-economic stabilisation policies may be needed in order to avoid the prospect of such unemployment becoming structural over a period of time. European monetary institutions and the reformed stability and growth pact as well as the existing room for manoeuvre for fiscal policies at the national level may suffice in this respect during normal times. However, renewed attempts by governments to test the limits of these institutions are more likely to occur in the future – at least if economic crises occur – than are economically sound adjustments. (Ahearne 2008; Trichet 2008; Weber, Knappe 2007)

Since, on average, a much larger part of unemployment in Europe appears to be structural than it does in the US, however, the first priority to boost labour demand should be to reform appropriately deficiencies in welfare state arrangements and in market regulations that artificially decrease labour supply and labour demand. Low competition in product markets emanating from obstacles to the entry of firms, for example, reduces labour demand as larger profits due to monopoly power can be divided between firms and incumbent employees. Conversely, pro-competitive policies in product markets tend to boost demand for labour. More generally, in case of high structural unemployment, exploiting complementarities of alternative policy measures, for example, by combining a number of market-enhancing and welfare state reforms, may show better results than isolated reforms to improve the employment situation of a country. (For the potential interactions of structural and macro-economic policies, see, in general, OECD 2006 and, for the specific case of Germany, Funk 2007)

Stylised facts of comparative labour market performance

Western Europe's labour market problems emerged in the mid-1970s after the first oil price shock which led to a rise in unemployment across OECD countries. In contrast to the US, however, where the labour market problems remained mainly cyclical, unemployment became structural in a number of European countries. Additionally, since the mid-1990s, productivity in the EU-15[1] has fallen behind that of the US. Since then, output per hour in the EU-15 has been dropping below the

[1] The EU15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

level in the US. Additionally, this was accompanied by a decrease in relative working hours whereas the US managed at the same time to increase both labour productivity and labour input. By 2005, gross domestic product (GDP) *per capita* amongst the EU-15 was 27% lower than that of the US. Around one third of this productivity shortfall can be explained by lower labour productivity, whereas the remaining two thirds are due to lower labour resource utilisation. In terms of the lower labour utilisation in the EU, one third is attributable to lower employment rates and the other two thirds result from lower hours worked. (Cameron, Fawcett, Fernandez 2008)

The lagging Western European labour market and productivity performance compared to the US can be illustrated similarly when taking into account the euro area. The latter does not include Denmark, Sweden and the United Kingdom of the EU-15 countries. For example, in 2006 the number of annual hours worked in the euro area was 1617 compared to 1804 in the US. This noteworthy lower average number of annual hours worked does not in itself necessarily reflect a preference for more leisure time induced by European culture, as some authors argue. "Rather, in conjunction with low employment and participation rates, it reflects poor labour market outcomes for the long-term unemployed, the young, the low-skilled, women, and the old, along with an apparent preference for intra-household production of services rather than market-provision of services." (Cameron, Fawcett, Fernandez 2008) Short working hours, low employment, poor substitution between home services provided personally at home and those bought in the market as well as weak productivity growth in Western Europe on average may, according to the standard labour market literature, be seen to a large extent as the cumulative effect of certain institutions and disincentive effects in the European states. (Alesina, Glaeser, Sacerdote 2005; Lindbeck 2006; Nickell, Nunziata, Ochel 2005; Siebert 2006) These issues include labour market regulation and taxes, employment-hampering benefit duration and benefit replacement rates as well as labour union policies and the connected distinct asymmetries in market power between well-protected incumbent workers, on the one hand, and employment-seeking persons, on the other hand (the well established "insider-outsider" phenomenon).

"All in all, this clearly suggests that there is still considerable room for improvement as regards increasing the level of labour resource utilisation in Europe" (Trichet 2008). According to the current President of the European Central Bank (ECB), Jean-Claude Trichet, Europe is not lagging in terms of labour input utilisation only but also with regard to innovation and particularly the diffusion of information and communication technology. "The structural characteristics of the US economy – a more flexible labour market, a higher degree of competition in product markets and lower barriers to entry for new firms – were apparently more conducive to exploiting the opportunities provided by new technologies." (Trichet 2008)

"All in all, it appears that the overriding policy concern for Europe is how to simultaneously achieve solid employment and productivity growth" (Trichet 2008). In other words, according to such a diagnosis, policymakers need to increase the flexibility of the European economy by, above all, improving competition and supporting enterprise in order to raise labour resource utilisation. “This is not because there is some simple trade-off between labour utilisation and productivity growth, but because a common set of institutional features may constrain Europe’s performance in both areas simultaneously, rather than one causing the other to under-perform.” (Cameron, Fawcett, Fernandez 2008, for an earlier treatment of the basic issues, see Knappe, Funk 1997, and for a less optimistic view which finds evidence for a strong negative trade-off between productivity and employment growth Dew-Becker, Gordon 2007)

EU’s Lisbon strategy

In the year 2000, a comparable diagnosis by the EC that highlighted the poor average labour market and productivity performance in Europe led to the launch of the original Lisbon strategy aiming, by 2010, to make the EU “the most dynamic and competitive knowledge-based economy in the world, capable of new economic growth with more and better jobs, and greater social cohesion.” (quoted in Sinn 2007, cf. also ECB 2005) It aims to do this by supporting structural reforms in the member states. The strategy made clear that reform of both labour market and social policies combined with a higher spending on research and development (3% of GDP or more in each state) appeared to be required at least in several of the member states to boost employment and growth. The evidence shows that alternative national employment-related policies have led to markedly differing levels of employment and unemployment rates. An inferior average performance compared to the US as well as a very poor performance in some member states (e.g. France, Germany, Italy and Spain) are characteristic of these differences. In order to aid such reforms, the EES of 1997 contained several specific measures designed to increase job creation. Although it was re-vamped so as to align it more closely to the early Lisbon strategy, which aims (among many other goals) at an EU employment rate for the working-age population of 70%, for women of 60% and for the 55 to 64 age group of 50% by 2010 (Abig 2005), the performance was still unsatisfactory.

According to Hans-Werner Sinn (2007) “instead of showing signs of becoming the world’s most dynamic region, Europe has turned out to be its laggard” in spite of the launch of the Lisbon strategy. He adds that “politicians have focused on the wrong priorities (and in fact have done very little even to pursue the priorities on which they focused). Emphasizing the roles of research and innovation, they have ignored Europe’s labor-market problems…” In short, the message of many academics is that the “Lisbon Agenda has not realised its objectives. A major reason for this is the failure of EU members to liberalise their product and labour markets.” (Criscuolo 2008) Having been widely criticised as having contributed little to European economic progress, the European Council of Heads of State and Government, in response, re-launched the Lisbon strategy in March 2005 by shifting its focus to micro-economic reforms. These reforms were buttressed by a macro-economic policy designed to create the necessary conditions for more growth and employment. (Owen Smith 2008)

The ambition of this renewed agenda is reflected in the claims made by the EC that the adoption might add 3% to the EU's GDP by 2010 and add 6 million jobs. (Directorate General … 2005) Other, independent research confirms that the potential gains of the strategy could be very significant. (Netherlands Bureau … 2005) Important components of the renewed Lisbon Agenda include measures to make Europe a more attractive place to work, invest, and innovate. Additionally, the renewal requires creating a more flexible and skilled workforce by adjusting human capital continuously to the needs of the labour market through improved education and training as well as lifelong learning. Moreover, the governance framework of the Lisbon strategy had to be improved in order to increase the rather poor implementation rate of structural reforms. Accordingly, all EU member states have to prepare National Reform Programmes (NRPs) since the re-launch of the strategy. These NRPs have to outline steps for structural reform for the period from 2005 to 2008 and for the new cycle (2008–2010). Emphasising partnership between the EU and the member states, these NRPs appear to reflect a stronger political commitment to the process of enacting meaningful structural reforms in order to improve performance in terms of both labour market outcomes and productivity. As the renewed approach recognises that, in order to address the common challenges, each level needs to play its full part, the new Community Lisbon programme, sets out, in addition, as counterparts to the NRPs those Community actions that will contribute the greatest value to those reforms undertaken by the member states.

European flexicurity policies

In order to bring the different levels together, the 2006 Spring European Council agreed priority areas as the pillars of the renewed strategy. The current focus is, above all, on the implementation of the existing guidelines that urge member states "to promote flexibility combined with employment security – 'flexicurity' – and reduce labour market segmentation, having due regard to the role of the social partners." (European Expert … 2007) For the period 2008 to 2010, the aim is to put "a stronger emphasis on measures aimed at investing more in people and at modernising labour markets." (European Commission 2007b) According to the EC, flexicurity "aims at ensuring that all citizens can enjoy a high level of employment security i.e. that they can easily find a good job at every stage of their active life." (European Commission 2007b) By elaborating on this topic in detail in several recent publications and conferences, the EC has provided extensive information on flexicurity and ways for member states to adapt their labour markets to the pressures of the current and future economic challenges, while, at the same time, tackling the social challenges of the 21st century.

European flexicurity policies are sometimes regarded as the most important recent addition to the EC's strategy of supporting structural reforms of labour markets at the member-state level. The Lisbon Strategy's early failure resulted in the EC adopting the flexicurity idea after the Kok Report on employment policy had underlined, in November 2004, the need for more labour market flexibility "while providing workers with appropriate levels of security." (European Commission 2004) The concept appears as a natural extension of the EC's earlier efforts. The EC's flexicurity strategy proved successful at least in the sense that a consensus in favour of it appeared to have emerged by 2006 among all relevant actors. (Keune, Jepsen 2007) After the joint analysis on "Key Challenges Facing European Labour Markets" which paid particular attention to flexicurity issues had been undertaken by the European social partners (ETUC/BUSINESS … 2007) actual contractual agreement was reached among the political EU actors in December 2007 when the European Council endorsed the EC's "Proposal on common principles on flexicurity." (Council of the European Union 2007)

This agreement includes a common set of flexicurity principles that are based on four components identified from, and related to, typical labour market situations or specific challenges and pathways: effective labour market policies, flexible and reliable contractual arrangements, comprehensive lifelong learning strategies and adequate social protection systems adapted to the challenges posed by more flexible labour markets. (European Commission 2007b) As a one-size-fits-all approach is regarded as inappropriate, member states, according to the European Expert Group on Flexicurity (2007), "will decide for themselves which challenge is most urgent for them, and not unlikely, they may wish to draw on more than one pathway." Accordingly, the EC recommended in December 2007 that "member states should now implement them, tailoring them to their own specific situations", that is "by defining national pathways within their NRPs by end 2008." (European Commission – Directorate-General … 2007)

The role played by the EC in employment policy, which has become established over time, is clearly illustrated by the Council of the European Union's (2007) invitation to the EC "to take the necessary steps to secure favourable conditions for a balanced implementation of this approach" by member states. This should occur while "acknowledging that the common principles are intended to be instrumental in the implementation of the next cycle of the Lisbon strategy and to serve as a useful basis for reforms, framing national policy options and specific national arrangements in the field of flexicurity; …; underlining the importance of European-level mutual learning and progress monitoring in the field of flexicurity, for which a consensual set of robust indicators based on high-quality statistics, covering equally and adequately the different components of flexicurity, is of utmost importance." (Council of the European Union 2007)

Flexicurity as smallest common denominator of the ESM?

As the relevant actors already acknowledged in the EES of 1997, it is vital to keep in mind that Europe is a diverse continent. This implies that looking at the performance of the EU-15 as a whole or the euro area only can be misleading. On the one hand, some countries have exhibited much better economic performance than others. On the other hand, European diversity increased considerably after recent EU enlargements, which started in May 2004 and which led to an increase of the EU to 27 members by 2007 and the euro area to 15 members by 2008.[2]

Additionally, it has to be taken into account that an activating role of the welfare state has only become one of the core elements in employment-related policy reforms since the mid-1990s. This idea implies finding a new balance between the rights and commitments of welfare beneficiaries in order to make work pay. The activating concept stems not only from national experiences of supposed role models in Europe, as mentioned above (Hardes 2008; European Foundation … 2007a), but also from the EES. The latter signifies that the member states have, for the first time, been trying to fight unemployment by means of community law. Formerly, such employment and social policy matters had always been regarded as a matter of genuine national responsibility (Abig 2005). In contrast, nowadays the EU recognises "the importance of a solid, integrated and balanced approach to the key challenges for the modernisation of labour markets, including the four components of flexicurity there identified." (Council of the European Union 2007). Moreover, it is acknowledged "that the common principles are intended to be instrumental in the implementation of the next cycle of the Lisbon strategy and to serve as a useful basis for reforms, framing national policy options and specific national arrangements in the field of flexicurity; recalling that there is no single pathway, and there is no principle more important than another …" (Council of the European Union 2007)

What do these developments mean for 'the' ESM? How can the EU's interference with employment issues be explained? Is it justified by economic rationality or caused by other factors? Based on former work on varieties of welfare states, it is argued that there is not just one ESM, but four or even more when taking into account the new member states, each with its own characteristics. (Sapir 2006; European Foundation … 2007b; Berthold, Brunner 2007) According to such approaches, there may be so many differences among national welfare state and labour market systems in the EU-27 that the very notions of an 'ESM' or a 'Social Europe' are rather dubious. It can be argued, however, that a substantial amount of unity remains within this diversity due to the fact that a great deal of common ground exists among the different member states' fundamental beliefs and core values. This includes, for example, strong support for social cohesion and relatively high levels of social protection against life risks for the entire population as well as a rather large role for social partnership and social dialogue at least in the majority of 14 of the 'old' EU-15 member states. In the United Kingdom as well as in several of the new member states, however, these social aspects are less pronounced. (Bukodi, Róbert 2007; Philips, Eamets 2007; Funk, Lesch 2004) The minimum social consensus amongst all EU countries may, however, be that the current key Lisbon goals of more employment and growth can be justified, above all, "because a Europe with more wealth is also more capable of supporting better social programmes and a better environment." (Pissarides 2005) Furthermore, a basic consensus exists that

[2] The new member states are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia (since May 2004) and Bulgaria as well as Romania (since 2007). Slovenia (in 2007) and Cyprus as well as Malta (in 2008) entered the euro area.

such a mix of differences and common ground implies that despite rather similar common challenges and risks, as for example globalisation, the EU should not aim at a common ESM with social uniformity and an additional transfer of national competencies to the EU, let alone harmonisation for the sake of harmonisation. (Pestieau 2006)

The role of the OMC

The obvious solution, therefore, appeared to be the implementation of some kind of soft governance by objectives – as in the EES. It is here that the Open Method of Co-ordination (OMC), which was coined at the Lisbon meeting in March 2000, made its appearance. It was positioned as a means of spreading best practices and achieving greater convergence towards the main EU goals. In spite of the fact that its merits and problems are still controversial (Busch 2005; Offe 2005; Verdun 2006), one obvious advantage of the OMC is that it limits political conflict. It does this by not imposing a single European vision on the ideal welfare state design. It does, however, leave potentially difficult implementation problems to the member states. (Pissarides 2005) The OMC was regarded as politically useful, because, on the one hand, amongst other Lisbon objectives, the goal of reaching employment targets fell into areas where the competence largely lay with member states, as mentioned above, and where the method of EU regulations or directives which are then implemented in the member states cannot be applied. On the other hand, throughout the 1990s, there was a debate about the inclusion of an employment dimension within the Maastricht criteria for participation in the European Monetary Union (EMU). There was, however, no consensus on an additional Maastricht criterion possible, but politicians as well as the EC wanted to act in an alternative way as the bleak employment performance created a political demand for a strong European commitment to employment. Furthermore, additions at the EU level in the fields of social protection, social inclusion and the fight against discrimination, which have much to do with employment, had implications in terms of EU legislation and policy co-ordination. (Ederveen, van der Horst, Tang 2005; Siebert 2006; Funk 2002)

Explaining the expanding EU influence

One economic rationale behind the expanding influence of the EU on, for example, national employment policies in spite, on the whole, the absence of formal powers (Sbragia, Stolfi 2008) is that the economic policies of one member state may have implications for economic welfare in others. In terms of economics, one important condition for EU involvement is that some kind of spillover exists for every area of economic policy concerned, more specifically with regard to re-focusing the Lisbon strategy for jobs by including joint principles of flexicurity. However, evidence, at least for employment, appears to show that a surge in employment in one member state seems to have a very limited impact on employment in other countries. For example, a boost to employment that raised national income in Germany by € 1 million would benefit other EU countries by less than € 40.000 (Ederveen, van der Horst, Tang 2005). Such a result may – at least with regard to spillover effects of improvements in national employment – weaken somewhat the EC's position that "member states' economies are highly inter-dependent" and that "there are many benefits to be gained if all move in the same direction and if reforms are aligned in time." (European Commission 2007b)

An alternative view, based in the public choice school of thought, states that further spillovers, for example capital flows, have to be taken into account. (Vaubel 2008) It is argued that as long as the member states set their labour regulations as a sovereign in isolation, the actors have to fear that a tightening of labour market regulations or an increase in these hurdles for companies – and, therefore, a comparative increase in costs – will lead to capital flight to countries with fewer or less onerous restrictions, other things being equal. With an increased role of Europeanisation and globalisation, however, the role of interjurisdictional competition to attract mobile capital has heightened considerably as more capital tends to mean improved labour productivity, wages and employment. Competitive decision making on national regulations, therefore, leads to a decreased level of regulations. This result is changed by qualified majority voting, which, since 1993, has become increasingly important in the EU also with regard to certain labour market-related issues. In the latter case, the member states with the deciding vote – that is the country whose vote tips the decision either for or against a proposal – can declare its level of regulation or a somewhat higher level as a compulsory minimum for all member states in order to avoid capital flight resulting from labour market regulation. Higher joint minimum regulations then, overall, decrease capital flows among the member states, which is driven by efforts to escape the regulations in the home country. Such a "strategy of raising rivals' costs" appears to play a major role in explaining the regulatory levels of controversial labour market-related directives, such as the European Working Time Directive (1993) and the European Works Council Directive (1994).

Even though the OMC hardly passes formal power to the EU, it can be interpreted as a strategy of raising rivals' costs by contributing to a "lowest common denominator" approach that can preserve the interests of the majority of the higher regulated EU as well. Bearing eastern EU enlargement in mind, such a strategy appeared rational for the majority of the comparatively highly regulated EU-15 countries, especially as it seemed to interfere only marginally with the sovereignty of nations as the EC was awarded a co-ordinating function only. If it is true that the EC has a deregulatory bias with regard to national regulations, this bias is, at the least, lessened at the supranational EU level by the partly compulsory inclusion of the social partners in decision making. (Funk 2006) As both established trade unions and employers' associations have an interest in deterring the entry of "newcomers" due to the higher competitive pressures that result, a bias against "pure market" solutions – that is in favour of regulations that raise rivals' costs of low regulated member states – and the use of ambiguous terms like flexicurity are the natural result.

It is true that a rather low compression of wage differentials in most continental European countries with often malign effects on employment and unemployment cannot be directly attributed to EU policies, as the EU has not legislated in this area. (Siebert 2006) Less formal channels may be very effective, however: on balance, the

EU's stance is such that the "right for fair and just working conditions" and the decision to regard (only?) "high-quality and productive jobs workplaces" as essential in the jointly adopted "Common Principles of Flexicurity" (Council of the European Union 2007) certainly indicates the likelihood of wage compression and inflexibility. The more such ambitions lead to stricter regulations in, up until now, lightly regulated countries, the more pressures in the most regulated EU member states of capital flight to such less restrictive member states will be moderated – as will the incentives to reform strict regulations. This is definitely in line with the idea of raising rivals' costs and may contribute to the persistence of rather low employment in the EU compared to the US. Taking, in addition, the resultant migration pressures and opportunities of capital flight towards countries outside the EU into account, some reform pressures are likely to remain; nonetheless, this interpretation may explain why overtaking the US in terms of competitiveness will prove to be difficult for the EU even in a longer-term perspective.

In contrast, other arguments that may justify some economically beneficial role of the EU in the form of the OMC in national employment policies include policy learning, as mentioned above, and the political economy of reform, both supporting – or at least not immediately rejecting – the idea of some soft co-ordination. A potential for policy learning means that learning can be stimulated through the process of participation, the exchange of information on best or good practices and peer review. Where – as in the case of employment policies – spillovers seem to be weak, the OMC then may contribute, above all, by taking into account cross-country deviations which allow for benchmarking exercises and mutual learning. However, benchmarking is not a panacea and clearly has limits if used as the sole means of reform. Trying to understand success solely by examining the strategies of countries with currently superior labour market performances may be biased. The problems of benchmarking labour market performances are similar to the ones in the microeconomics of strategy: "Successful firms may pursue several strategies, only some of which contribute to their success. Successful firms may possess proprietary assets and know-how that allow them to succeed where imitators would fail. A strategy of 'monkey see, monkey do' is no guarantee of success." (Besanko *et al.* 2007) Similarly, the real ingredients for success have to be identified and they need to be separated out from those that apparently explain comparative labour market performance. Indeed, based on proper economic analysis, the necessary as well as the sufficient conditions for superior labour market performance need to be identified. Benchmarking efforts can support such analysis; they cannot, however, substitute for it.

According to the insider-outsider hypothesis, the key obstacle in solving persisting structural unemployment problems in several European countries is the existence of powerful constituencies of incumbent employees, the insiders, who block reforms that would, ultimately, improve the situation of the outsiders in the labour market (as well as the welfare of the nation as a whole). A supranational approach may help to overcome such resistance not only in relation to product market reforms (as was demonstrated by liberalising product markets and by capital market reforms which were stimulated to a noteworthy extent by supranational initiatives at the EU level over the last decades), but also with regard to welfare-enhancing labour market reforms that are difficult to implement at the national level. Again, however, the evidence that supports the argument that the EU's employment targets and benchmarking efforts as well as peer pressure have been the decisive drivers of national labour market reforms appears to be relatively scant. Political economy critics have, *inter alia*, noted that due to the absence of sufficiently strong sanctions and due to the fact that national politicians can potentially claim that conditions beyond their control have hindered their achievement of better results, the OMC is not capable of generating the necessary commitment either to fighting unemployment or increasing employment. (Offe 2005)

Other explanations for the EU's involvement in labour market issues are based on the EC's self-interest. According to a different public choice approach, the EC has a self-interest in shifting additional duties to the supranational level in order, firstly, to justify its current and future use of resources, such as expenditure for personnel, and, secondly, to increase its influence and power. (Vaubel 2001; Siebert 2006) To put it another way, the EC's involvement may mainly produce costs without having much of an additional impact on actual employment-creating reforms in the national economies. It may, for example, be argued that for the policy transfer of successful reforms to happen, the EC's efforts to support flexicurity approaches are probably not as vital as it seems that they are quite likely to speed up such a policy transfer to only a limited extent. In other words, in the current environment, policy transfer would take place in the self-interest of the country anyway; that is, it would occur without the EU's involvement. This makes its involvement superfluous. Moreover, because national expertise as well as international institutions, such as the OECD and the International Monetary Fund, provide sufficient information on reform successes and failures that is easily and widely disseminated throughout the EU. On the one hand, the positive effects of the OMC are low if not much additional knowledge and pressure to reform are created by these efforts. On the other hand, additional costs for member states stem from the direct costs mentioned above and the indirect ones through competition-decreasing interventions by the EC on the labour market situation.

It is difficult to discriminate among these alternative hypotheses empirically. On the whole, however, it appears safe to say that, up until now, the EC's role in structural employment policies has, at best, helped, on balance, to only a limited extent to improve the employment situation. One reason for this is may be that the EC has also undertaken measures that may have increased inflexibility, compressed labour costs and decreased interjurisdictional competition by partially replacing national labour market-oriented deregulations with new supranational regulations that have lowered the potentially employment-creating effects of more competition. (Siebert 2006)

Such evidence appears to be altogether in line with an alternative political economy hypothesis that states that, at the European level, a bias towards an over-ambitious agenda to solve employment problems appeared to exist during the first five year period of the Lisbon strategy compared to the supranational level's capability to contribute to the attainment of those EU targets. This is because most of the necessary labour market and social policies needed to achieve the targets have to be set within the nations themselves. Christopher Pissarides (2005) speculates that the supranational EU level of the strategy's target setting may explain "why politicians were prepared to risk their reputation on such specific targets: precisely because it was done at the European level. As far as I know, no national politician has been voted down or re-elected on the basis of his or her record *vis-à-vis* Lisbon." The political differences between the national and the supranational levels with regard to the re-election of national politicians may explain why "when it comes to specific measures designed to achieve the growth and employment targets, the Lisbon agenda does not appear to have had an impact on national policies. There has been a lot of talk and a lot of support for the objectives, but not much direct action, at least not more than would have been taken by a responsible government faced with the challenge of economic survival and growth in a rapidly globalising world." (Pissarides 2005) Such a pessimistic reading of events may be repeated after the implementation of the renewed Lisbon strategy as the underlying problems have hardly changed: "The reason might be that the types of policies needed are universal, they apply to all countries. But the processes needed to implement them are not common; they need to be decided at the national level within the context of the institutions and objectives of the national government, which is much more difficult. And there are likely to be objections from many stakeholders who have vested interests in the status quo." (Pissarides 2005)

Dilemmas of the OMC

The political economy dilemmas associated with the OMC are depicted in Table 1. Given that the EU sets rather ambitious – but, in terms of future challenges, economically justified – employment targets, the potential economic efficiency of the reform may be assessed as high if the needed reforms are implemented in an appropriate way. The political acceptance or viability is low, however, as the incentives of implementing the necessary reforms at the national level are low if these efforts may mean "committing political suicide" as the economically necessary strategy is likely to be injurious to powerful constituencies. In the case of the current soft OMC, the opposite is true, even if the strengthening of the Lisbon strategy in 2005 probably lowered the dilemma to some extent. The efficiency is likely to be low, whereas the political acceptance at the EU level appears to be high.

Table 1. Dilemma of the OMC as a tool for employment policy

	Strong OMC – efficient sanctions	Soft OMC – inefficient sanctions
Economic efficiency	High	Low
Political acceptance	Low	High

Source: Author's compilation.

The evidence with regard to the first phase of the Lisbon strategy as well as concerning the renewed strategy seems to confirm these hypotheses. Politically the current OMC approach is the only one that appears to be possible in practice due, firstly, to the fact that political acceptance of stricter measures is absent and, secondly, the risk of proposing or prescribing inadequate instruments or pathways to reform that may prove to be inappropriate means by which the envisaged goals should be achieved; potentially, however, a further employment crisis in the EU may lead to more stringent measures with stricter monitoring.

Controversial evaluations despite official consensus

Against this background, it can be argued that the EU's principles of flexicurity may be interpreted as the consensus with regard to the smallest common denominator of the ESM. Even this interpretation is, however, probably more controversial than it seems at first glance. Some critics who are close to the trade unions assess the EC's request for flexicurity as a strategy of following its own one-sided policy agenda; these critics evaluate the approach as "not balanced and hardly new." (Keune, Jepsen 2007) This demonstrates that an assessment of flexicurity policies as the smallest common denominator or compromise with load-carrying capacity of the ESM may even go too far. The current consensus that apparently exists may be superficial only and, perhaps, rests, above all, on the indubitable ambiguity of the term. This ambiguity assures all of the participants in social dialogue that their views will, to a certain extent, be represented. This enables the texts that have been jointly agreed upon to be interpreted differently, and it may result in rather different views on flexicurity.

For example, despite the joint position paper of the social partners, incalculable differences in important viewpoints of these actors on how to interpret and implement flexicurity policies at the national level obviously persist. An indication of this can be seen in a comparison of the commentaries on flexicurity issues by representatives of different social partners at the European level. On the one hand, representatives of business often insist that social and employment policies are the competence of member states and that, correspondingly, the EU should not have any powers beyond the setting of minimum standards. Moreover, in their view policy learning from countries with successful flexicurity models often depends on necessary preconditions that are frequently absent in countries that have adopted different reform strategies.

On the other hand, trade union representatives fear that flexicurity approaches simply hide the objectives of dismantling job protection and giving employers more power to press for a re-distribution in favour of business and industry. (Dauderstädt 2007; Janssen, Stocker, Huemer 2007; Keune, Jepsen 2007; Peter 2007) Hence, it is particularly striking that in contrast to the European Expert Group on flexicurity (2007), the social partners seem to regard flexicurity, to a large extent, as "a zero or negative sum game where only one party wins" whereas it is meant to aim at win-win situations or a positive sum game, in which all stakeholders benefit.

Supposed win-win situations – sometimes theoretical at best

Indeed, it may be – as demonstrated by the economics of labour market reforms (Saint Paul 2006) – that supposed win-win situations due to potential efficiency gains may prove to be at best theoretical possibilities that may not be realised in practice. One reason for the likely failure of potentially (better: apparently) superior reforms are problems of contractual timing if it is not possible for governments to commit to the future pace of taxes and transfers following any reform. This, probably, arises because, above all, it is not certain that the party or, indeed, politicians will remain in power for the required length of time. This may explain the reluctance of trade unions in poorly performing continental European countries, which traditionally have had rather high job security combined with high income security, to exchange employment protection rights for higher unemployment benefits, as suggested by the much celebrated and recently economically superior Danish flexicurity model (relatively easy hiring and firing, generous social security, extensive activation policies), as governments often cannot commit or have no interest in committing themselves to the promises and laws of a former government.

Hence, it appears debatable whether the current consensus of flexicurity policies as the smallest common denominator of the ESM will last. In the final analysis, it is not certain if the EU's flexicurity strategy will always – or, at least, most of the time – lead to the adoption of more than cosmetic or marginal reforms at the national level in several EU countries due to political economy problems associated with the implementation or due to potential inefficiencies of such policy approaches resulting, for example, from the problems of transferability.

Mixed results of recent policy transfers

It is by no means a coincidence, therefore, that we have seen mixed results of the EU's flexicurity policies up until now. Despite an extensive debate on flexicurity in recent years and in spite of the fact that the 2006 Spring European Council stressed the need "to pursue, in accordance with their individual labour market situations, reforms in labour market and social policies under an integrated flexicurity approach, adequately adapted to specific institutional environments and taking into account the need to combat labour market segmentation" (European Expert Group … 2007) the results have, so far, not been very encouraging. Even if the EC extols the merits of the approach, it appears not to be seen as a panacea by quite a few stakeholders and, hence, the member states' reactions were often cautious despite their official agreement. Although the EC has publicised the fact that the EU's policies to boost jobs and growth appear, finally, to be paying off in terms of increased economic growth and employment – by 2007 the general employment rate reached 66% which is close to the 2010 Lisbon target of 70% – the bigger part of the recent upturn in employment is cyclical. Moreover, the remaining effect can only be traced back, to a certain extent, to flexicurity-oriented reform efforts. As the European Commission (2007b) has noted: "About half of the Member States have developed – or are developing – policies on the basis of a 'flexicurity' approach. Yet the policy response remains fragmented. A sustained move from passive to active labour market policies is underway. Member states are reforming social security systems, especially through changes of their tax and benefit systems, so as to balance rights and obligations. More flexible labour contracts for particular categories (e.g. new entrants) have been introduced but have not been backed up sufficiently by opportunities to acquire new skills which can help to advance in the labour market. The more difficult task of reforming the rules governing other kinds of contracts has received little attention. As a result, many labour markets remain segmented, with well-protected insiders and more precarious outsiders on contracts with uncertain prospects. Equally, lifelong learning falls far short of what is required, particularly among the low-skilled, who need it most. Education and training systems are not yet sufficiently responsive to labour market needs."

On balance, therefore, the mixed record of the European employment strategy during the 2005 to 2008 Lisbon cycle as well as the rather weak rationale in favour of a prominent role for the EC in employment issues probably do not justify an increased role of the EU in employment policy. Going further, it may even be doubted whether the EU's involvement in employment issues will really lead to appropriate action at the national level. It is true, however, that some good flexicurity practices have already been developed and implemented. They may influence reforms in other countries as they appear to be easily transferable due to their potentially self-enforcing character. In an ideal typical way, such reforms create incentive-compatible win-win solutions that do not dupe either employers or employees. Additionally, they do not harm the rest of society. Useful examples, the details of which follow, include the Austrian individual savings account and the Danish reform of competence training to improve employability.

- Until 2003, severance payments to redundant employees depended on the length of the employment relationship in Austria. This implied that workers, when moving from one employer to another, would lose their accumulated rights. In the new system, Austrian employers have had to make monthly payments into personalised accounts held by the employee, which are portable from job to job. Workers can draw on this account in the case of dismissal. "The new system means that workers will no longer be put off from changing jobs for fear of losing out financially and that they will not lose out if they choose to hand in their notice to an employer" (European Commission – Directorate-General … 2007). The Austrian reform has the additional advantages of guaranteeing much greater predictability to employers with regard to the costs of hiring and firing while providing essential security to workers who are laid off. Simultaneously, such a reform may improve or at least stabilise the employment situation in the economy and may have potential also for other welfare state reforms. (cf. OECD 2006)
- The Danish vocational training reform "was to focus on delivering competencies for the labour market as opposed to merely completing a course. … The competence description is defined in terms of three core elements: a description of the typical workplace at which the competence is required, the competence required at that workplace and a list of the programmes or courses that will

provide this competence. Once the competence has been obtained, a certificate which documents the competence is provided" (European Foundation … 2007a). More generally, in order to ensure effective human capital formation, the workforce needs, firstly, to adjust to changing skill demands, and, secondly, to be enabled to aspire to better-paid jobs. In order to achieve these goals, it is important to ensure that training markets function better. Sufficient financial incentives for companies and employees are needed to invest more in on-the-job training by using co-financing instruments (see OECD 2006 for details). As in Denmark, it may be an important and promising task of social partners and companies to enable within the framework conditions set by the government well-designed training leave schemes and to reduce inequalities in access to training without necessarily harming efficiency.

At this stage it is probably most important to note that some of the recent flexicurity amendments will not become hurdles for improving employment in a cyclically less favourable context and during a time for which "reform fatigue" has become a contemporary characteristic. (European Commission 2007b) This is particularly true if some of the flexicurity measures and pathways preferred by the EC may become potential hurdles for reaching a further improvement of the labour market situation, particularly the employment targets, and may be misused in the bargaining processes in order to play security improvements that favour insiders of the labour market off against employment improvements favouring, above all, the outsiders. The following section will analyse some of these issues more thoroughly.

Neglects and limitations of the European flexicurity strategy

In order to achieve the labour market goals set in the renewed Lisbon strategy, the policies that are initiated at the EU level must be approximately in line with the empirically valid proposals of labour market economics. This means that the underlying causes of the still comparatively low employment in Europe must be understood before policy prescriptions can be made. As noted above, standard labour economics gives us rather clear preconditions that must be met in order to make the European strategy effective. In line with general proposals to improve the employment situation in the EU as a whole compared to the US, such a policy approach needs to ensure the following (Lindbeck 2006):

- Nothing creates more employment security than a well-functioning labour market and a high employment rate. (Sinn 2007) Therefore, the underlying tenets of a flexicurity strategy must acknowledge that, in line with empirically confirmed negative short-term labour demand curves, it is better for a person to gain a job at a wage below current insider wages rather than being unemployed in the expectation of, potentially, receiving a similar wage to insiders. To put it differently: it may well be that as a result of employment-enhancing reforms, wage inequality will rise, at least in the short-term, and certain persons will be worse off in terms of, for example, hourly wages compared to the status quo. Due to the ambiguity of the flexicurity concept and because it regards "high-quality and productive workplaces" as "essential" (Council of the European

Union 2007), it is entirely unclear if – or to what extent – such lower wages (or more generally a low-wage sector with entry jobs for the long-term unemployed) are regarded as acceptable within the flexicurity approach. In particular, such problems resulting from structural changes and necessary adjustments must not be addressed with the wrong instruments. There is a danger that this might happen to a great extent in some countries, despite the rhetorical acceptance of flexicurity policies at the EU level. Just one such recent example is the French government's intervention in a series of industrial restructurings. This clearly favours protecting jobs as opposed to protecting workers. (Betts 2008) If this proves not to be the only exception to the flexicurity policy rule of protecting workers and simultaneously allowing companies to restructure by closing plants and cutting jobs, but if, instead, this were to occur on a regular basis in many EU countries, this will mean that the whole strategy might be doomed to suffer the same fate as the early Lisbon strategy. A contributing factor of this may be also that, as in the early Lisbon strategy, the expectations of the realistic effects are probably again over-optimistic and that the whole approach is over-ambitious. It is probably not without dangers when Vladimir Spidla, the commissioner responsible for employment, social affairs and equal opportunities, leaves the impression that, despite all the future challenges that European workers are likely to face, they will not have to live with lower levels of job security and that European social models are not in jeopardy "if we are prepared to modernise them." (European Commission – Directorate-General … 2007) Such statements might backfire in the future when people's expectations that are, probably, too high are left unrealised.

- Employment-hampering insider-outsider problems that still exist in Europe must not be neglected in order to avoid controversial, but sufficiently effective, policies to solve unemployment and low employment problems. If only lenient policies, such as increasing unemployment benefits in exchange for negligible reductions in dismissal protection, are implemented, these will be insufficient to solve the remaining problems in quite a few European countries, including France and Germany. Harsher problem-solving policies that may be necessary from an economic point of view, however, may be rejected by some of the actors involved in flexicurity issues, particularly the trade unions, as not being in line with the basic strategy. Potential examples include the controversial question of the role that financial pressures should play in encouraging unemployed persons to accept a new job. It is entirely unclear if national representatives of trade unions accept the implications of the EC's decision that financial pressures may be needed to increase incentives for the unemployed to find a job (Tornau 2007): "Good unemployment benefits are necessary to offset negative income consequences during job transfers, but they may have a negative effect on the intensity of job search activities and may reduce financial incentives to accept work." (European Commission – Directorate-General … 2007) Putting what is, probably, too much emphasis on those problems of the dual labour market that still exist neglects the fact that such segmentations, which result from jobs for entrants into the labour market being less protected than insiders' jobs, are often only temporary. Furthermore, they are sometimes functionally needed in order to be able to implement fairer labour market reforms in the medium term: such marginal liberalisation policies may be a transitional device to gradually build a political coalition in favour of more equitable labour market reforms. Such reform efforts then reduce employment protection for permanent contracts and redistribute the chances for regular employment over insiders and outsiders in a fairer and efficiency-enhancing way. Moreover, gains may arise from decreased employment-hampering insider power in wage bargaining and from a reduction in the extent of skill loss due to shorter unemployment durations. (Deelen, Jongen, Visser 2006) Problems resulting from the political feasibility of reforms must be taken into account and must not be neglected: "Having a single, more flexible, employment contract is often advocated but very few governments have attempted to move towards such a contract for fear of political opposition. Marginal liberalisations themselves are not very easy to implement." (Saint Paul 2006) Characterising the recent Spanish reform efforts as a relatively successful example of a flexicurity strategy (see, for example, Tornau 2007) tells only half of the story. A necessary precondition for this to have happened was the former policy of consciously pursuing a partial liberalisation. This was done by allowing greater use of fixed-term employment (for reasons of political feasibility). As a result, the labour market was segmented. The latter appears to have been essential to achieving a coalition that enables more recent reform efforts to occur that have reduced existing labour market segmentation due to low labour mobility, high wage dispersion and inadequate investments in human capital in Spain. Similarly, the more socially inclusive reforms in Britain since the mid-1990s were probably possible without hurting the labour market outcomes only after the earlier liberalising reform efforts of the Conservative governments, which resulted in a decrease not only in unemployment, but also in dual labour market problems. (Funk 2007) Only this background may explain why the United Kingdom can be assessed now in a relatively positive light in the EC's evaluation of national reform programmes. (European Commission 2007) On the other hand, the German social and labour market reform efforts of the Red-Green coalition under former chancellor Schröder are often evaluated as having "taken a big step away from a flexicurity-inspired model rather than towards it." (Flexicurity 2006) Indeed, these reforms lowered, amongst other things, the reservation wages of quite a few long-term unemployed persons and deregulated temporary jobs while leaving Germany's relatively strict rules on protection from dismissal mostly untouched. (Funk 2007) As a result, the EC (2007) criticises, *inter alia*, the fact that "Germany has not sufficiently addressed the flexicurity concept in an integrated manner" and that "the labour market remains segmented between insiders and outsiders". What is forgotten, however, is the fact that, on the one hand, the reforms of the Schröder government proved to be, on balance, successful recently in terms of strong employment creation – also in terms of the volume of hours worked in the whole economy – in contrast to the years before. On the other hand, even those reforms that hardly altered directly the entitlements of labour market insiders directly were so unpopular that they cost chancellor Schröder his job. More popular and apparently more socially inclusive reforms as suggested by the EC

– focusing on more lifelong learning and increased training efforts in active labour market policies as well as a decreased emphasis on persons combining permanent work in low-paid part-time jobs with basic income support (European Commission 2007c) – would almost certainly hamper the current German employment successes according to the view of the majority of German economists. Had such reforms occurred instead of those actually implemented in the last five years, it would have almost certainly meant the maintenance of the old German insider-outsider problem of very high unemployment of outsiders and high wages of insiders at the cost of a low general employment rate. (Funk 2000) To put it differently, considerably more socially inclusive reforms that remove new labour market segmentations that have resulted from recent reforms, such as the relatively large wage differences between labour market insiders and labour market entrants with temporary jobs only, and that, simultaneously, do not or hardly hamper job creation in general, will only be possible in Germany if political majorities accept such reforms. This will, in all probability, not be the case as long as the majority of voters expect to gain from such a dual labour market which protects the insiders of the labour market more strongly than it does new entrants. It appears highly problematic that such political economy considerations do not seem to play any role in the EC's evaluations of national employment policies. Moreover, it must not be forgotten that flexicurity policies themselves are sometimes associated with labour market segmentation, as they may preserve or even reinforce existing ones. A key example relates to policies as they affect women as they normally face a significantly larger amount of transitions than men due to care breaks which may lead to a segmented female labour market with secure but rather low earnings career prospects. This is particularly true for Sweden, one of the celebrated role models of flexicurity. Nonetheless, the country appears to show strong signs of gender job segregation. This situation needs additional governmental or social partners' intervention to organise transitions in such a way that unpaid work should not hamper women's career development. (Gazier 2006) More fundamentally, this demonstrates that, similar to, for example, the effects of marginal reforms to liberalise only outsiders' labour contracts only and the effects of reductions in replacement rates through lower unemployment aid, pure flexicurity-oriented policies have their drawbacks as well. In both cases adequate interventions to obtain beneficial, socially inclusive results are required that do not harm the employment creation of the economies decisively.

- The strategy must additionally take into account that high labour force participation is not the same thing as a substantial number of hours worked. There may be huge differences among countries not only with regard to the number of persons in the labour force and those actually employed, but also between the number of employed individuals and those actually doing their job; that is, those who are not absent from their job due to sickness or family-care reasons with little or no loss of income. A further cause for this difference stems from the average hours worked per employee due to cross-country differences in marginal, part-time and full-time jobs as well as differences in overtime. The Swedish example demonstrates that the number of persons employed and those actually performing their job may differ considerably. In 2004, only 64% of working-age men were actually at work although 75% were recorded as employed. For women, the actual work figure was just 57%. An example of a different problem that leads to the lower supply of labour comes from Germany. The German experience shows that labour supply may decrease as a result of the design of transfer incentives: "Despite some easing of the rules on additional earnings, the effective marginal tax burden on recipients of social assistance (Unemployment Compensation II) resulting from transfer withdrawal when an income is earned is still in the range of 80 to 90%, and in some income ranges even 100% and more." (Sinn 2007) Therefore, all efforts of combined flexicurity strategies need to support an increase in the volume of labour in a country and not only a higher rate of employment, which may include many part-time and marginal jobs that, if subsidised, may lead to a decrease in the hours worked in an economy. If the EC's flexicurity strategy contributes to a lower supply of hours worked, the approach cannot really be seen to be the answer to the EU's dilemma of how to maintain and improve competitiveness whilst preserving the ESM.

- Despite the EC's efforts to take into account the alternative natures of labour market problems in different groups of countries (for more details Hardes 2008), it is safe to say that doubts still arise regarding the transferability of the flexicurity concept to economies other than the Nordic ones and the Netherlands, where it originated. "Flexibility may be understood as a re-interpretation of those countries' one hundred year tradition of social dialogue. Such a tradition does not exist in many countries, for example in Central and Eastern Europe. In other countries – mainly the Mediterranean ones – employer/trade union relations have historically been much more confrontational. It remains to be tested whether those countries will as easily accept the disappearance of the antagonism between labour and capital as the Nordics seem to have." (Flexibility 2007) Beyond the political feasibility problems mentioned above – flexicurity reforms are difficult to implement against the will of labour market insiders who normally also represent a political majority – several other practical problems exist: it is true that "activation/mutual obligations" approaches can successfully co-exist with comparatively generous benefits while providing effective incentives for the unemployed to work. Success depends, however, on the strenuous efforts of recipients to find paid work again and on the relevant payment actually being claimed only in an emergency. Put another way, wrongful benefit claims must be regarded as unfair. (OECD 2006) Surveys demonstrate that this is largely true in the Scandinavian economies, but is so to only a limited extent in most countries in Western and central Europe and even less in the EU's south. In other words, a key requirement for implementing this element of flexicurity is lacking in these countries. (Algan, Cahuc 2006) Additionally, in countries that are characterised by inefficiencies in the legal system and in the public sector, the flexicurity paradigm may prove to become very costly. Furthermore, it is obvious that flexicurity reforms may be doomed to failure in the medium to long term if they are not accompanied by parallel investments to upgrade skills and, against the backdrop of increasing competition at all levels of education systems, to increase the employability of the workforce. (Nunziata 2007)

- The EC has repeatedly emphasised the importance of the involvement of social partners in the implementation phase of the Lisbon strategy, despite the different roles that they play in the member states. It is certainly true that the exclusion of powerful social partners may hamper reform progress as the acceptance of difficult reforms imposed by the government among employees may be low. The integration of social partners into such a strategy should, however, take into account that this may also dilute the reform processes that are needed. Therefore, their role should be mainly limited to their comparative advantages in contributing to the attainment of the desired labour market goals, especially the employment targets set in the EES. Examples include a potential role for employers and their associations as well as trade unions to maintain social norms in favour of work and against living on benefits and monitor "excessive" use of various benefit systems. An important function could be to contain "moral hazard" behaviour in an environment where such norms erode over time. However, reform blockages or a watering-down of the policies and the costly monitoring needed to effectively increase employment may occur and may be regarded as a risk of a flexicurity policy strategy, in general, and of an inclusion of the social partners into the implementation of such reforms in particular. (Saint Paul 2006)

This discussion shows that the flexicurity policies that are currently being initiated at the EU level are only partially compatible with the proposals made by labour market economics. After all, this approach still appears to be, to some extent, as over-optimistic and as over-ambitious as the early Lisbon strategy was. This may be criticised because an over-ambitious reform agenda almost inevitably leads to disappointment. This, in turn, may increase levels of animosity towards the EU that already exist. It may, thereby, decrease future confidence in the EU.

Furthermore, the strategy neglects that a flexicurity approach is probably neither required nor sufficient for achieving a good labour market performance combined with a social inclusion that is at least in the medium and long term compatible with the idea of the ESM. This implies that alternative European paths to good labour market results are, to a certain extent, being neglected. This is particularly true for the British approach that hardly supports the use of active labour market policies and disregards the role of social partners to a much greater degree than many other "old" member states and, therefore, may be a useful role model for quite a few of the new member states in particular. Additionally and even more importantly, the preconditions that are, potentially, necessary for success as well as the unwanted side-effects that the flexicurity idea may have for employment creation are downplayed to too great an extent.

Table 2. Alternative labour market reforms: flexicurity is not always a panacea

		Additional employment in terms of hours worked induced by structural reforms?	
		Yes	No
Flexicurity-inspired reforms?	Yes	activation/mutual obligations approach creates strong work incentive in spite of generous benefits for inactivity successful exchange of lower job protection for higher employment and income protection problems of mutual commitments are solved by effective norms, social pacts etc.	new mix of activation/ mutual obligations insufficiently increases work incentives to pay for a simultaneous increase of benefits linking-up of reforms that is vital for success may be difficult or impossible decrease in effective labour supply if incentive changes lead to a substitution of full time jobs by part-time jobs
	No	marginal liberalisations (two-tier reforms) that only ease outsiders' jobs regulations to overcome political viability problems; they often become more socially inclusive in the medium term due to a change of the political equilibrium 'work first' policy without a large role for ALMPs may lead to more social inclusion than highly regulated labour markets with high unemployment social inclusion may be facilitated by in-work benefits that top-up low market wages or national minimum wages if they have a limited detrimental effect on free labour market performance	decrease of labour supply by costly early retirement measures, schematically reduced weekly working time etc. decrease of labour demand in low-wage sector due to generous minimum wages marginal two-tier reforms concentrated on outsiders may change only slightly employment in the economy as a whole in the short term if outsiders' reservation wages are high and if reversal of liberalising reforms is likely for political reasons neglect of complementary reforms with regard to investment incentives in training or earned-income tax credits, for example

Source: Author's compilation.

Table 2 summarises some of these problems by demonstrating that not all policies that may be termed flexicurity approaches by some of the actors in the EU are necessarily employment friendly in terms of a highly important indicator; that is, the volume of work. Two drawbacks appear to be the most significant: on the one hand, severe problems of political feasibility remain as, for example, insiders in the labour market who are normally also decisive for political decision making will often not accept the loss of job protection rights, even if they are partially compensated for this by higher benefits as they have often regard the former as their more secure social entitlements. On the other hand, the flexicurity strategy may lead to the adoption of policies that have undesirable side-effects due, for example, to the missing preconditions for such policies to become solutions to problems. This, in turn, may be due, for instance, to low search intensity by the unemployed for new jobs. Contrary to expectations, flexicurity may then lead to decreased economic efficiency and lower, rather than higher, employment. The Table also shows that alternative policies may lead to similarly good results in terms of employment without necessarily neglecting social inclusion.

Assuming those controversies away that still exist among economists, the Table does not include policies to increase product market competition or to create a stable macro-economic environment as they can be regarded as positive for employment creation independent of the alternative constellations in the Table.

Concluding remarks

Quite a few of the strategies that were used by several of the member states to fight structural unemployment, such as early retirement or cutting weekly working hours, have, to a large extent, proved to be failures. The reason is that most of these strategies did not solve the fundamental problem of the labour market, which is the impossibility for outsiders to compete on equal terms with insiders. Gilles Saint-Paul (2006) summarises this argument, with which many mainstream economists would probably agree: "As long as this problem remains, European labor markets will be plagued by distortions and inefficiencies, which show up not only in the form of high unemployment, but also high unemployment duration, misallocation of employment across sectors, resources wasted on 'active labor market policies' that could be spent more productively, and so on."

One of the merits of the flexicurity model – if implemented, from an economics perspective, correctly – is its potential to contribute to a resolution of this characteristic problem. If the EU's strategy can achieve this goal, this is likely to be an important step towards catching-up with the performance of the US in terms of employment and economic growth. A further merit is the potential role of the EU's flexicurity strategy to avoid "worst case" economic scenarios in some countries where strictly interventionist "anti-market" governments may come to power. To some extent at least, the strategy may help to avoid a shift towards an old-fashioned non-activating employment policy that favours insiders in the labour market and, in effect, simply redistributes towards outsiders without increasing their opportunities and their incentives to work.

If the numerous political economy risks and the knowledge gaps that still exist regarding the implementation of the approach are taken into account, however, it can be argued that the European flexicurity suggestions will, paradoxically, lead to a further delay of the actual reforms needed, and to an aggravation of the problems in some of the member states. This may happen if an interpretation of flexicurity as extensive social security comes to the fore. Such an interpretation is supported by, for example, some trade union-supporting analysts in Germany. (Tornau 2007) It may govern the respective national decision-making processes and spread to other countries as well. Such an interpretation, which supports, for example, rather generous minimum wages despite their well-known risks (Funk, Lesch 2006) and a minimisation of external flexibility even at the risk of leaving existing unemployment problems unresolved differs markedly from the point of view on how to fight the remaining unemployment problems in Europe that is shared by European and most national employers and their associations. It is also the position of the majority of economists. If the view supported by some powerful trade unions becomes the orthodoxy in large parts of the EU, it may well be that, as in the first part of the Lisbon strategy the agenda, this time the adoption of "The Common Principles of Flexicurity" in order to reach employment targets will prove to be over-ambitious.

A simple general flexicurity rule to ensure – other things being equal – the simultaneous creation of more employment and more security should be as follows: if, on balance, the employers' benefits of increased "flexibility" are larger than the employers' costs of increased employees' "security", employment tends to increase in functioning labour markets (and *vice versa*). Such a rule may help employers and employees as well as the social partners to find mutually beneficial solutions in bargaining situations. Additionally, flexicurity pathways should not be interpreted as narrow and static as several commentators have done until now.

In the final analysis, optimal reform sequencing in the labour market may need to create certain labour market inequalities first by marginal liberalisations of, for example, temporary jobs, part-time work etc., in order to break the old insider cartels which put outsiders and entrants at a disadvantage. Therefore, a more dynamic and more fruitful perspective has to bear in mind that, in order to improve decisively the employment performance of the EU as a whole, certain tendencies of labour market segmentation have to be accepted in lagging countries, at least temporarily, before new national political majorities will emerge and demand fairer labour market reforms some years later. There is a clear risk of attacking dual labour market tendencies in a way that is partly independent of their causes. This is what the EC appears to be doing. In practice, the removal of such inequalities may be implemented, above all, by destroying the room for manoeuvre of market-driven employment creation in quite a few EU countries. This is, again, because such interventionist policies are often in the interest of those current job-holders – and their representatives, the established trade unions – who are well paid and well protected, to a large extent, against dismissal. If that risk materialises, the new Lisbon strategy will not help to create lastingly higher employment in terms of hours worked nor will it achieve measurably fairer labour market outcomes than before. Thus, the opportunities of many labour market entrants will still be lower than those of the insiders.

The best the EC can do to avoid such a scenario is to put the main emphasis on a lasting increase in employment (and economic growth) when reviewing the NRPs instead of putting a strong emphasis on questions of labour market segmentation. The latter may play a function in ensuring future national employment- and justice-creating labour market reforms. The future success will also depend on the decision about which quantitative indicators will be monitored by the EC in the future. It will, again, be potentially counterproductive to put too much emphasis on equity-related – instead of employment-related – quantitative indicators, as their interpretation is more likely to lead to inadequate policy proposals. Furthermore, the EC has to ensure the completion of the single market, especially with regards to the liberalisation of services and to take better advantage of economies of scale within the Community Lisbon programme, as the latter mainly requires action from European institutions. (Pissarides 2006; European Commission 2004)

Finally, it has to be mentioned that several lightly regulated "liberal" market economies, including the United Kingdom, that have residual social protection only and are, therefore, without all of the features of the prominent flexicurity paradigm as practised in Denmark or Sweden, and that they often have populations that have anxieties about globalisation that are only marginally higher than those in these Nordic countries. Moreover, their populations, on average, appear to be as "happy" as the people of the Nordic countries as recent research indicates. (European Foundation … 2007) Such a result may further increase the doubts on too strong an emphasis on the flexicurity paradigm.

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