

EU LABOUR MARKET FLEXIBILITY

Marcela Palíšková

Abstract

Labour markets in the EU currently have a number of problems: particularly high rate of unemployment, increase the risk of labour market segmentation, deficiency of skilled workforce. The concept of flexicurity – accepted even under the Lisbon Agenda – is the starting point for reform of European labour markets. The balance between flexibility and security forms the basis of this concept. The article is focused on one of these components – flexibility. The most commonly used mechanisms of adaptation of the workforce to labour market are explained gradually: external numerical flexibility (also contractual flexibility), internal numerical flexibility (flexibility of working hours, also temporal or financial flexibility) and organizational (also functional) flexibility. There is shown – based on analysis of secondary data – how the different instruments of flexibility are used in EU countries and whether they can be effective instruments for reducing unemployment.

Key words: flexibility, EU labour markets, unemployment

JEL Code: J 21, J 24

Introduction

Persistent economic recession has serious consequences for the European labour market. The average unemployment rate continues to grow. In February 2013 the unemployment rate was 10.9% in the EU and even 12% in euro area (10.2 % and 10.9% in February 2012). A total of 26.338 million people were out of work (thereof 19.071 million in euro area). However, differences between countries are large. The lowest unemployment rate was in Austria (4.8%), Germany (5.4%), Luxembourg (5.5%) and Netherlands (6.6%). On the contrary the highest unemployment rate was in Greece (26.4%), Spain (26.3%) and Portugal (17.5%) on that date. But high unemployment is not the only problem on the European labour market. Others include high labour costs, deficiency of skilled workforce, low labour mobility, adverse demographic developments, etc. If the situation on the European labour market to improve in the future, it is necessary fundamental reform.

The basis for reform of European labour market is concept of flexicurity accepted under Lisbon Agenda in 2007.¹ It is possible to say, that flexicurity is a policy that attempts to combine flexibility of labour markets for employers and security of employment for employees. The fundamental question and the substance of this concept is the balance between flexibility and security.

There are four components of flexicurity:²

1. *Flexible and reliable contractual arrangements* (from the perspective of the employer and the employee, of “insiders” and “outsiders”) through modern labour laws, collective agreements and work organization.
2. *Comprehensive lifelong learning strategies* to ensure the continual adaptability and employability of workers, particularly the most vulnerable.
3. *Effective active labour market policies* that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs.
4. *Modern social security systems*, that provide adequate income support, encourage employment and facilitate labour market mobility. This includes broad coverage of social protection provisions (unemployment benefits, pensions and healthcare) that help people combine work with private and family responsibilities such as childcare.

These four components can mutually support and complement in practice. The correct setting and combination components of flexicurity increase employment rate and reduce the risk of poverty, also improve human capital.

EU countries are very different. They differ from level of economies, standard of living, historical development of the labour market, collective agreements, social protective system, etc. This is the reason why there is no universal model of flexicurity. It will depend on each country which combination of measures will be chosen and what the relationship between flexibility and security will be set.

The article is concerned with one of the components of flexicurity – flexibility of labour market.

¹ EC: 2007. Towards Common Principles of Flexicurity: More and better jobs through flexibility and security. Brussels, 27. 6. 2007. COM(2007) 359 final. <http://eur-lex-europa.eu/LexUriServ.do?uri=COM:2007:0359:FIN:EN:PDF>.

² Ibid, p. 5.

1 Strategies of flexibility

In practice companies can use different flexibility strategies or their combinations. Table 1 gives an example of kinds of flexibility by authors Goudswaard and de Nanteuil (2000).

Tab. 1: Divisions of flexibility

	Quantitative flexibility	Qualitative flexibility
External flexibility	<i>Employment status</i> (types of contract – fixed duration, temporary, work on call, etc.)	<i>Productions systems</i> (subcontracting, use of freelance labour)
	<i>Numerical/contractual flexibility</i>	<i>Productive/geographical flexibility</i>
Internal flexibility	<i>Working hours</i> (overtime, part-time, weekend working, irregular/variable hours)	<i>Work organization</i> (job rotation, multitasking, making workers responsible for planning and budgeting, etc.)
	<i>Temporal/financial flexibility</i>	<i>Functional/organizational flexibility</i>

Source: Goudswaard, Anneke, de Nanteuil, Matthieu. Flexibility and Working Conditions: a qualitative and comparative study in seven EU Member States, 2000, online <http://www.eurofound.europa.eu/publications/htmlfiles/ef0007.htm>

The choice of a particular strategy of flexibility depends on the situation in individual countries primary.

The most common mechanisms of adaptation of the workforce to the needs of the labour market are: contractual flexibility, financial flexibility and organizational flexibility. Different types of flexibility may overlap in practice.

2 Numerical or contractual flexibility

Numerical or contractual flexibility is based on the use of non-permanent contracts by companies. This type of labour contracts is an instrument of adaptation of workers (inside the enterprise and also from the external labour market) to the demands. There is way how to increase the flexibility of labour.

Companies often enter into fixed-term contracts (including seasonal works), temporary work (including temporary agency work) and work without fixed working hours (for example work from home). So they can lay off employees and recruit more easily, as needed.

Within the EU continues to monitor indicator Percentage of fixed-term contracts in total employment (Table 2).

Tab. 2: Percentage of fixed-term contracts in total employment (EU-27)

Year	ES	PT	FI	SE	FR	NL	SI	EL	DE	EU-27	CY	IT	DK	BE
2000	32.2	19.9	16.3	15.8	15.2	13.7	13.7	13.5	12.7	12.3	10.7	10.1	9.7	9.1
2005	33.3b	19.5	16.5	16.0b	13.9	15.5	17.4	11.8	14.2b	14.0	14.0	12.3	9.8	8.9
2012	23.6	20.7	15.6	16.4	15.2	19.5	17.1	10.0	13.8	13.7	15.0	13.8	8.5	8.1
Year	CZ	AT	HU	UK	LV	BG	IE	PL	LU	SK	LT	MT	EE	RO
2000	8.1	8.0	7.1	7.0	6.7	6.3*	5.9	5.8	5.3	4.8	4.4	4.1	3.0	2.8
2005	8.6	9.1	7.0	5.8	8.4	6.4	3.7	25.7	5.3	5.0	5.5	4.5	2.7	2.4
2012	8.8b	9.3	9.4	6.3	4.7	4.5	10.2	26.9b	7.7	6.8	2.6	6.9	3.7	1.7

Source: Eurostat, 20 May 2013, online <http://www.czso.cz/pll/eutab/html.h?ptabkod=tps00073>, own processing

Notes: *data are for 2001, b – series break

Table shows large differences across member states. In 2012, most fixed-term contracts were concluded in Poland (26.9%). Also, in this country has increased the number of these contracts the most since 2000 (of a 21.1 p.p.). Often is used this type of contract in Spain (23.6%) and Portugal (20.7%). There is widespread in the Netherlands (18.4%) and traditionally in the Scandinavian countries (Sweden 16.4%, Finland 15.6% and Denmark 13.8%). On the contrary, fixed-term contracts were concluded at least in Romania (1.7%) and Lithuania (2.6%). Generally, this type of contract is rarely used in the new member states (except already mentioned Poland and also Slovenia). For example there is 8.8% in the Czech Republic.

Overall, in the EU shows a slight increase, from 12.3% (2000) to 13.7% (2012). Number of fixed-term contracts grew constantly until 2007, when it was 14.6%. But there number reduced in the following years (from 2007 to 2012 of a 0.9 p. p.). This indicates that workers with fixed-term contract are laid of in a recession at the first.

Temporary employees often have worse working conditions then employees on permanent contracts (for example less access to training, lower job autonomy, absence of benefits). The concept of flexicurity but rather requires simplification, for both – regular and atypical – employment contracts. Numerical or contractual flexibility has a direct impact on employment and the number of vacancies.

3 Temporal or financial flexibility

Temporal or financial flexibility allows enterprises to ensure a higher degree of flexibility through more flexible working time or pay arrangement. These can include overtime, part-time work, weekend work, irregular or variable hours, etc.

Some forms of working time arrangements will be more preferred by enterprises others by workers. But part-time work, flexible working time schedules, early retirement and phased retirement may be suitable for both sides – companies and employees. For example, employers require especially overtime and temporary employment (including freelance work, fixed-term contracts and temporary agency work), unusual working hours (shift work, night shift, Saturday or Sunday work). While at the demand of the employees are above all working time accounts, parental leave and other leave schemes (care, education, etc.). Temporal or financial flexibility has a direct impact on the number of hours worked.

Within the EU continues to monitor indicator Percentage of part-time work in total employment (Table 3).

Tab. 3: Percentage of part-time work in total employment (EU-27)

Year	NL	UK	DK	SE	DE	BE	FR	RO	IE	AT	EU-27	FI	LV	PT
2000	41.5	25.1	21.3	19.5	19.4	18.9	16.7	16.5	16.4	16.3	16.2	12.3	11.3	10.9
2005	46.1	25.2	22.1	24.7b	24.0b	22.0	17.2	10.2	:	21.1	17.8	13.7	8.3	11.2
2012	49.8	27.2	25.7	26.5	26.7	25.1	18.0	10.2	24.0	25.7	20.0	15.1	9.4	14.3
Year	PL	LU	LT	IT	CY	EE	ES	MT	SI	CZ	EL	HU	BG	SK
2000	10.5	10.4	10.2	8.4	8.4	8.1	7.9	6.8	6.5	5.3	4.5	3.5	3.2*	2.1
2005	10.8	17.4	7.1	12.8	8.9	7.8	12.4b	9.6	9.0	4.9	5.0	4.1	2.1	2.5
2012	7.9b	19.0	9.4	17.1	10.7	10.4	14.7	14.0	9.8	5.8b	7.7	7.0	2.4	4.1b

Source: Eurostat, 20 May 2013, online <http://www.czso.cz/pll/eutab/html.h?ptabkod=tps00159>, own processing

Notes: *data are for 2001, b – series break, : data not available

Differences among member countries are even greater than in the previous indicator. Almost half of the employees work part-time in the Netherland (49.8%), the least in Bulgaria (2.4%). Table shows also differences between “old” and “new” member states. With the exception of Greece (7.7%), the indicator is below 10% only in new member countries: in Slovenia (9.8%), Latvia, Lithuania (both 9.4%), Poland (7.9%), Hungary (7.0%), Czech Republic (5.8%), Slovakia (4.1%) and already mentioned Bulgaria. On the contrary, part-time work is most widespread in the Netherland, United Kingdom, Germany, Sweden, Denmark,

Austria, Belgium and Ireland. The number of part-time work is above the EU average (20%) in these countries.

As an example of two different approaches to temporal flexibility we can introduce Germany and Spain. In Germany were the consequences of the recession on the labour market considerably mitigated by using of the temporal flexibility instruments. Enterprises preferred limiting production, shorter working hours (so-called Kurzarbeit) and atypical working hours from dismissal of employees. The decline of employment was negligible therefore. On the contrary, Spain uses these instruments very limited but simultaneously has a very high number of fixed-term contracts which allow terminate employment relationships easily. This combination is unfavorable and it may cause of a large decrease of employment in the event of economic shocks. And probably it is also one of the causes of high unemployment in this country.

Available Eurostat data shows, that the number of part-time employees gradually increased during the years 2008–2012, during the recession. The only exception is Poland, where the number of part-time work declined in these years. We can say that part-time work is an important instrument of adaptation of labour markets to changing conditions.

4 Functional flexibility

Functional flexibility is the way to make work within the company more flexible, allowing workers to change places as needed. This type of flexibility consists of various forms of work organization, for example task rotation, multitasking, teamwork and involvement of workers in planning.

These forms of work organization have two positive effects. First, they allow more flexibility in work and second, they have a positive effect on the skills development of workers. They would be prepared to carry out more tasks within the firm. It is way to enhance their job security and also to increase their employability on labour market. Achieved level of functional flexibility has an important impact on problem-solving, learning and innovation within enterprise.

Another way of developing and updating skills of workers is training. Also in this sphere are significant differences between EU countries. It is true that much better approach to training have high skilled workers with non-permanent contract. This fact has a negative effect on status of low skilled on labour market which is so further disadvantage.

Fig. 1: Employer-paid training requested and provided, by country (2010, %)



Source: Eurofound, 5th European Working Conditions Survey 2012, online <http://www.eurofound.europa.eu/pubdocs/2011/82/en/1/EF1182EN.pdf>

Notes: Employees only

The differences in the intensity of employer-paid training among countries are large. It also showed results of a survey of working conditions which was carried out by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) during the year 2010, from January to June (Figure 1).

Over half of the employees in Finland, in the Netherlands, Slovenia and Sweden attended employer-paid training over the previous 12 months. On the other side, for example in Bulgaria or Greece there was less than one in five workers. The survey results also showed that workers have a more active role in requesting training in the Netherlands and in the Scandinavian countries: more than 70% employees in Denmark, Finland and Sweden and around 65% in the Netherlands took part in employer-paid training or asked for it in the previous 12 months.

Education and training in companies are important instruments of functional flexibility. Employer-paid training is often used also in the United Kingdom, Ireland and Austria but in the new EU countries, such as Slovenia or the Czech Republic.

Conclusion

Available statistical data show that the use of flexibility instruments as adaptation mechanisms increased in the last years, especially since 2008, when are evident effects of recession. On labour markets can be seen not only growth unemployment rate, reduction in employment, less of job vacancies, etc. but also more frequent use of short-time working,

changes in the type of working contracts, freezing or reducing salaries, etc. In many countries are also implemented short-time targeted active employment policy measures that should mitigate the impact of the recession on labour market.

The above analysis showed that among EU countries are enormous differences in the use of flexibility instruments. These disparities are the result of various economic levels, specificities of national labour markets, legislative differences but also previous social development and different economic policies finally.

Effects of more flexibility in working conditions (mostly on the labour market and to groups of workers, above all more precarious workers) are the subject of many studies in the EU currently.

It can also be considered as a new form of social risk. Therefore modern forms of flexibility should be complemented by social protection systems to manage the risks of individual workers.

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Contact

Marcela Palíšková

University of Economics, Prague, Department of Human Resource Management

W. Churchill Sq. 4, 130 67 Prague 3, Czech Republic

paliskm@vse.cz