

Flexicurity as a Soft Power

How the EU Deals With Long-Term Unemployment

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1 Introduction

Long-term unemployment in Europe increased since the beginning of the economic and financial crisis. On the European average the share of people who were unemployed for at least a year (as a share of the active population) increased from 2.5 percent in the second quarter 2008 to 4.1 percent in the second quarter 2011. At the same time countries such as Greece and Spain experienced even higher increases. The long-term unemployment rate in Greece increased from 3.6 to 8.0 percent and in Spain from 1.8 to 8.6 percent. About half of the people in long-term unemployment are even unemployed for at least two years (Eurostat, 2012).

This development is problematic, since long-term unemployment is a characteristic of social exclusion. According to Kronauer (1998) labour market exclusion is one type of exclusion from which – together with economic exclusion, institutional exclusion, social isolation, cultural exclusion and spatial exclusion – social exclusion arises. The longer people who want to work are not participating in paid work, the less likely it gets for them to find a job.

Long-term unemployment is a type of social exclusion for two reasons. Firstly, long-term unemployment causes social exclusion due to “scarring” effects (Campbell, 2000). Long-term unemployment leaves scars on confidence and motivation of the unemployed as well as on the employers’ perception of an individual’s skills. Secondly, people who are long-term unemployed cannot adjust to the quickly changing labour markets anymore (Benoit-Guilbot, 1994; Campbell, 2000). Thus, those who experience the changes, because they are employed, have an advantage compared to the unemployed.

In order to fight the upward trend in long-term unemployment rates the European Union (EU) promotes the concept of flexicurity in order to reform European labour markets.

Flexicurity describes a strategy that aims at simultaneously strengthen flexibility and security in order to benefit both parties in an employment relationship (Mission for Flexicurity, 2008).

Flexicurity is an example of soft power used by the EU. Soft power describes the power with which agents (countries, policy makers, institutions) affect other agents to act in a certain way (Nye, 1990). This is contrary to hard, coercive power where agents are forced to act in a certain way (Nye, 1990). Nye (1990) sees soft power as important as hard power. Soft power implies that the power is seen as legitimated by others. Thus, resistance is less likely. The EU

uses soft power to introduce flexicurity to European labour markets by defining common principles.

With this paper I want to look at whether and how the concept of flexicurity aims at fighting and preventing long-term unemployment and how effective it is as a soft power. The paper is organized as following. Section two provides a theoretical analysis of flexicurity and long-term unemployment. In order to see how flexicurity addresses long-term unemployment the causes of long-term unemployment are identified, followed by a definition of flexicurity and its four common principles. At the end of section two the question of how flexicurity deals with long-term unemployment is answered. In section three I look at the case of Spain with its recent labour market reforms. I analyze whether and to what extent Spain introduced flexicurity. Furthermore, the effectiveness of flexicurity as a soft power is assessed. This is followed by the conclusion in section four.

2 Flexicurity and long-term unemployment

2.1 Causes for long-term unemployment

In order to see in which way flexicurity addresses long-term unemployment the causes for it need to be analyzed. Campbell (2000) identifies six different causes for long-term unemployment.

Firstly, long-term unemployment is apparent if no sufficient number of jobs exists (Campbell, 2000). The number of jobs depends on several factors such as economic conditions, the competitive position of the national economy and productivity levels. Taken together, the number of jobs depends on the growth rate of an economy. However, in which way higher economic growth could lower long-term unemployment depends on the characteristics of economic growth (Campbell, 2000). For instance, if the growth is not labour intensive it would not create any or only a few new jobs.

Secondly, long-term unemployment can be explained through structural unemployment (Campbell, 2000). Structural unemployment is defined as unemployment due to mismatches (Freeman, 2008). Freeman (2008) names two different mismatches that cause structural unemployment. Regional disparities in the availability of new employment opportunities and the decline of industries can cause structural unemployment. The second mismatch is a mismatch in the skill profile of the labour force, which is apparent if the skills of those

searching for jobs are different to the skills required for vacancies. If labour supply cannot or not fast enough adjust to changes in labour demand, unemployment arises.

Thirdly, long-term unemployment can be caused by the behavior of the unemployed (Campbell, 2000). Depending on their search intensity they are more or less likely to find a job. People who are registered as unemployed but are not effectively looking for a job become long-term unemployed. People opt for low search intensities if the utility of work is too low and if their reservation wage is too high respectively. The reservation wage is the wage at which an individual is indifferent between working and not working (Mortensen, 2008).

Another cause for long-term unemployment is the insider-outsider problem (Campbell, 2000). In most countries wages are set through collective bargaining between employer organizations and employee organizations (unions) (Boeri & van Ours, 2008). It is in the interest of the insiders in the labour market (employers and employed) that the setting of wages reflects their interests rather than those of outsiders (unemployed).

Fifthly, low labour turnover can cause long-term unemployment (Campbell, 2000). High hiring and firing costs lead to low labour turnover. Fewer individuals experience unemployment, but those who do experience spells on longer durations. High hiring and firing costs can have different causes such as strict employment protection legislations (Boeri & van Ours, 2008).

Finally, Campbell (2000) names discrimination as a reason for long-term unemployment. If certain groups (age, disability, ethnic groups etc.) are discriminated it is very hard or impossible for them to find a job.

2.2 Flexicurity

After the causes of long-term unemployment are identified I now turn to the concept of flexicurity which the EU promotes in order to reform European labour markets. Flexicurity describes a strategy that aims at simultaneously strengthen flexibility and security in order to benefit both parties in an employment relationship (Mission for Flexicurity, 2008). Hence, it is a concept that balances flexibility, where it matters for job creation and protection, where it matters for social security (Viebrock & Clasen, 2009). The idea behind this concept is that flexibility and security are not contradictory, but complementary (Viebrock & Clasen, 2009). In order to formulate policies addressing flexicurity one needs a detailed definition. According to Wilthagen and Tros (2004) flexicurity is defined as following:

“Flexicurity is (1) a degree of job, employment, income and ‘combination’ security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows for enduring and high quality labour market participation and social inclusion, while at the same time providing (2) a degree of numerical (both external and internal), functional and wage flexibility that allows for labour markets’ (and individual companies’) timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity”

The most prominent cases of countries that introduced flexicurity are Denmark and the Netherlands. Both countries – who reformed their labour markets towards flexicurity in the 1990s – perform quite well with respect to important measures such as labour participation and long-term unemployment rates. In the third quarter of 2011 1.7 percent of the active Danish population was unemployed for more than 12 month and only 1.4 percent of the active Dutch population (Eurostat, 2012). Only 0.7 percent of the active population in Denmark and 0.5 percent of the active population in the Netherlands were unemployed for more than 24 month in the third quarter of 2011 (Eurostat, 2012).

The good performance of those two countries led to the interest of the EU on flexicurity. The European commission formed an expert group for flexicurity (EEGF) and determined four common principles along which member countries should organize their labour markets. The European Commission does not understand flexicurity as one single approach. Instead they formulated common principles that take the heterogeneity among European labour markets into account. Every country can design and implement flexicurity according to their individual challenges and needs (European Commission, 2007).

The common principles are the following. Firstly, flexicurity comprises flexible and secure contractual arrangements and work organizations – as well from the point of view of an employer as a worker (EEGF, 2007). According to the EEGF (2007) this can be realized through modern labour laws and work organizations. Secondly, effective active labour market policies are needed in order to facilitate transitions to new jobs as well as to help people to cope with rapid change, unemployment and reintegration (EEGF, 2007). The third common principle states that countries should implement lifelong learning systems in order to ensure the adaptability and employability of workers as well as to help employees to keep up the productivity levels (EEGF, 2007). The final common principle regards social security systems. Countries are suggested to introduce modern social security systems that focus on

providing adequate income support during transitions in order to support labour market mobility (EEGF, 2007). Furthermore, social security systems should integrate provisions to ease the combination of work with private and family responsibilities such as childcare.

2.3 How does flexicurity affect long-term unemployment?

The first common principle suggests flexible and secure contractual arrangements. This could affect the number of jobs in an economy. If there is not sufficient number of jobs, as stated in section 2.1, long-term unemployment arises. Flexible contractual arrangements could affect the competitive position of the national workforce in the global economy attracting international companies. An increase in foreign direct investment stimulates economic growth and thus, increases the number of jobs available.

According to the second common principle effective active labour market policies are needed. This addresses the search intensity of unemployed. Effective active labour market policies – as the name suggests – aim at supporting or forcing unemployed to become active. Thus, it increases search intensity.

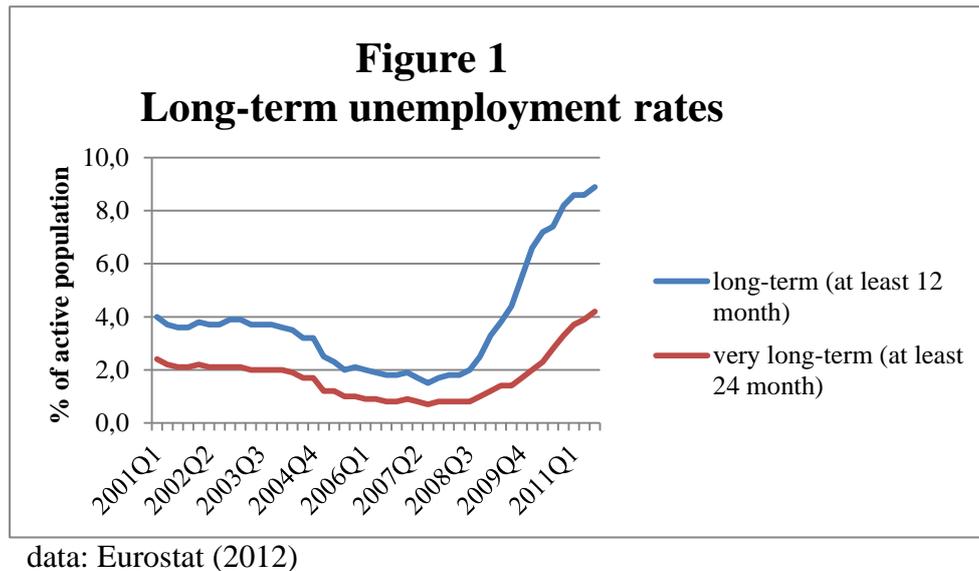
The third common principle states that lifelong learning systems are needed. This principle addresses structural unemployment as a cause of long-term unemployment. If people adapt to changes via lifelong learning systems, mismatches in skill profiles are less likely.

The final common principle suggests modern social security systems for European labour markets. This does also affect search intensity. If a modern social security system eases the combination of work with private and family responsibilities the reservation wage of the affected is likely to decrease. Thus, they raise their search intensity.

The above analysis shows that different causes of long-term unemployment are addressed by flexicurity. What remains unclear is whether flexicurity is an effective soft power. In the next section this question is answered for the case of Spain, a country with high long-term unemployment rates and recent labour market reforms.

3 Spain

As figure 1 shows long-term unemployment rates in Spain increased rapidly since the beginning of the financial and economic crisis. The latest available data for the third quarter of 2011 displays a long-term unemployment rate of 8.9 percent for Spain. 4.2 percent of the active population was even unemployed for at least two years (Eurostat, 2012).



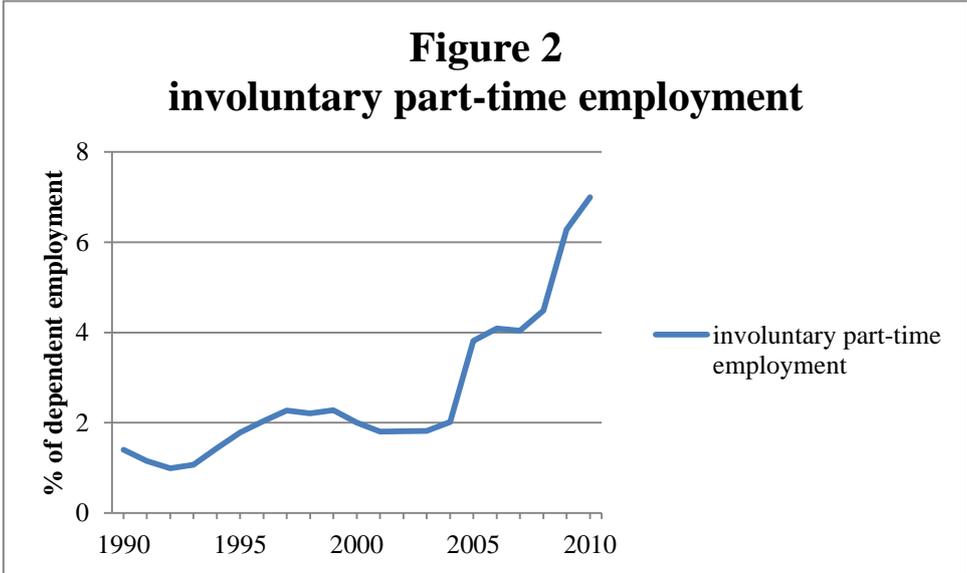
In order to fight the high long-term unemployment rates Spain implemented several labour market reforms in 2010 and 2011. According to the OECD (2011) these reforms address four main issues. Firstly, reforms aim at reducing the labour market duality in Spain. Certain work conditions in Spain do not apply for every worker. Thus, you have one labour market comprising people who are covered by these working conditions and one with workers who are not. This situation in Spain is displayed by the big share of people in temporary contracts (OECD, Employment Outlook 2011, 2011). Since people on temporary contracts are not covered by collective agreements between employers' organizations and unions they receive lower wages and enjoy less regulation and security. Secondly, the reforms promote rather internal flexibility than external flexibility. Internal flexibility refers to adjustment in wages and working hours, while external flexibility refers to redundancies. Thirdly, the reforms provide financial subsidies for firms hiring people who suffer mostly from the increase in unemployment. Next to young people, less-skilled workers and women, long-term unemployed are also included in this group. Finally, the reforms aim to improve labour

market intermediation and delivery of employment services. Especially the former two are clearly related to the concept of flexicurity. As the OECD (2011) states:

“These policy measures are welcome as they will contribute to the adaptability of the Spanish labour markets, while at the same time address labour market duality.”

The former aspect refers to the flexibility part and the latter to the security part of flexicurity.

However, the time since the introduction of the reforms is too short to say anything about the effectiveness of the reforms. If social exclusion via long-term unemployment is reduced through the reforms in Spain, another type of exclusion can appear. The reforms in Spain bear the danger of substituting external flexibility with internal flexibility. If labour market flexibility is emphasized on, the number of people in dual labour markets remains, which can increase the number of people working in precarious employment. Precarious employment refers to types of employment that are below the socially accepted normative standards due to an unbalanced distribution towards and amongst workers (ESOPE, 2004). Indicators for precarious employment are the share of people who are on non-permanent contracts, quasi self-employed, earn relatively low wages or work involuntary part-time (ESOPE, 2004).



data: OECD (2012)

As one can see in figure 2 involuntary part-time employment in Spain shows an upward trend that could be further boosted by the recent reforms. If this happens another form of exclusion

appears. The amount of people who were socially excluded due to long-term unemployment decreases in Spain, but the number of people who are excluded from secure employment possibilities increases. However, as mentioned before what the effects and consequences of the Spanish labour market reforms are needs to be decided at a later point of time.

What one can say with regards to Spain is that flexicurity was an effective soft power for the EU. The Spanish reforms clearly reflect elements of the concept of flexicurity. The reason for this is the economic and financial crisis. Due to high (long-term) unemployment rates countries are in need of reforms. In such times countries look for a superior organization such as the EU that provides them a guideline along which national governments can reform their labour markets.

4. Conclusion

In this paper I analyzed how flexicurity addresses long-term unemployment and whether flexicurity is an effective soft power.

Long-term unemployment is apparent if at least one of the following causes occurs: A lack in sufficient numbers of jobs, structural unemployment, low search intensity of unemployed, insider-outsider problem, low labour turnover and discrimination of certain groups.

All four common principles of flexicurity, which the EU suggested, address causes of long-term unemployment. Flexible and secure contractual arrangements affect the number of jobs in an economy. Active labour market policies as well as modern social security systems affect the search intensity of individuals. Finally, lifelong learning systems decrease structural unemployment.

The concept of flexicurity is clearly visible in recent labour market reforms in Spain. It is an effective soft power, because of the financial and economic crises. Countries such as Spain are in need for guidelines that help them to organize their labour markets.

What remains unsolved is whether flexicurity is an effective concept as such for countries with high long-term unemployment rates as Spain. Since the reforms in Spain were only implemented in 2010 and 2011, its effectiveness cannot be assessed yet.

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