

# Farewell to flexicurity? Austerity and labour policies in the European Union

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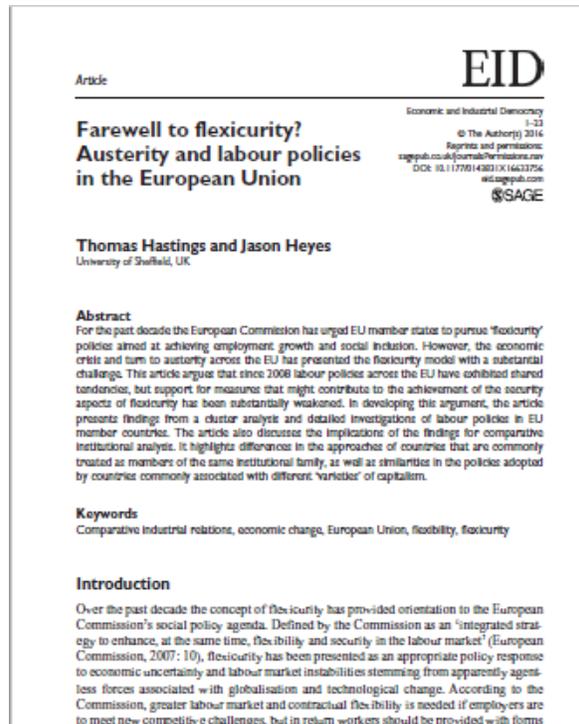
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# Available text

- Hastings T and Heyes J (2016) Farewell to Flexicurity? Austerity and labour policies in the European Union, *Economic and Industrial Democracy* 1-23



# A brief (recent) history of EU social policy

- 1980s and 1990s – emphasis on creating conditions to underpin the EU single market.
- Late 1990s – European Employment Strategy
- 2000 Lisbon Strategy
- 2005 Relaunched Lisbon Strategy PLUS Flexicurity (employment security, not job security)
- Economic crisis- social policy as a tool of structural adjustment

# Flexicurity pillars

- Flexible and reliable contracts
- Active labour market policies to facilitate transitions
- Adequate social security
- Participation in lifelong learning

# Is flexicurity fit for purpose?

- The economic crisis presented the flexicurity model with substantial challenges
- Flexicurity is supposed to deliver 'employment security' (as opposed to job security) by enhancing workers' 'employability' and improve social cohesion
- The European Commission encouraged EU member states to develop crisis responses in ways that were consistent with flexicurity
- But the implementation of austerity implies a reduction in support for key components of the flexicurity approach

# Flexicurity pillars under pressure?

- The economic crisis and subsequent developments have had implications for the four 'pillars' of flexicurity:
  - Flexible and reliable contracts (widespread weakening of EPL)
  - Comprehensive lifelong learning (increase in participation by unemployed workers, but participation by employed workers peaked in 2005)
  - Effective active labour market policies (initial expansion, subsequent cut backs. More emphasis on welfare-to-work)
  - Modern social security systems that provide adequate income support (implications of austerity for out-of-work benefits etc.)

# EU economic and social policy

- ECB, DG EcFin and national economy and finance ministers have pushed for social policy to be used as an economic adjustment mechanism
- Pressure has been particularly heavy on Spain, Greece, Portugal
- The power of the EC and ECB to influence economic and social policy appears to have increased
- More stringent rules in respect of fiscal governance (Euro-plus pact, 'six pack')
- Introduction of the 'European semester'. EU member states are expected to respond to country specific recommendations.
- Heightened pressure for supply side reforms.

# National institutions and crisis responses

- What do these developments mean for national policy?
- ‘Varieties of capitalism’ (Hall and Soskice 2001): predicts CMEs should preserve institutions (e.g. employment and social protections). Liberalisation should largely be confined to LMEs (e.g. UK, Ireland). Path dependency.
- Historical institutionalism (e.g. Streeck and Thelen 2005): tends to suggest change pathways are more open and fluid, particularly in times of difficulty.
- Varieties of Liberalisation (Thelen 2014)
- Convergence? The functions and goals of institutions and policies might have become more similar even if their form has not (Baccaro and Howell 2014)

# Research Methods

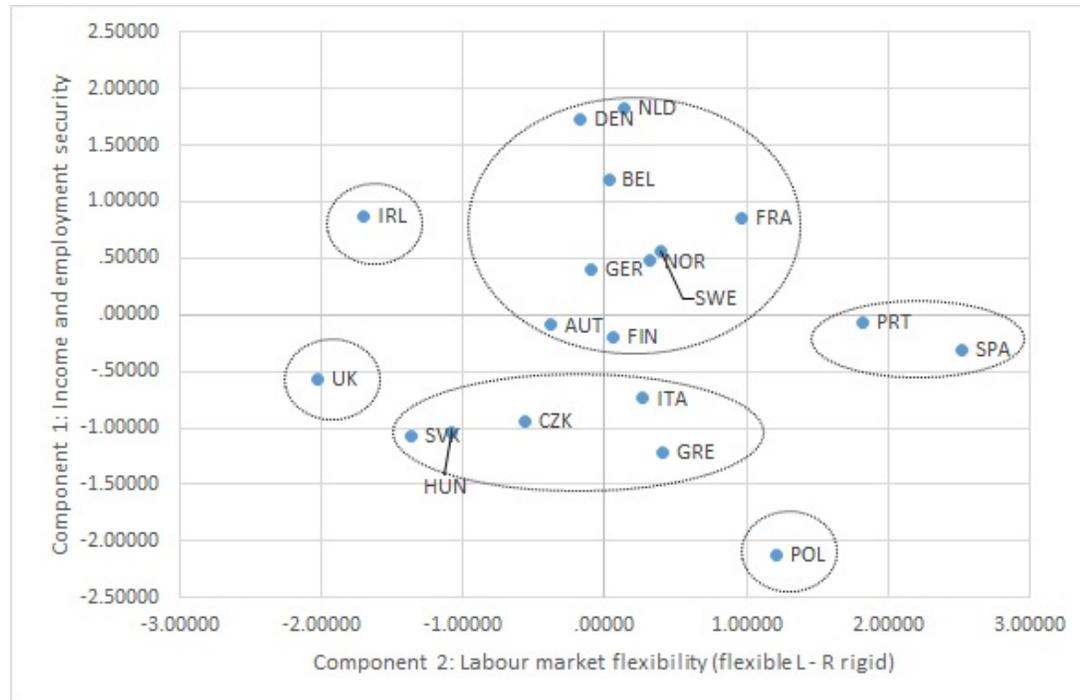
- Principal Components Analysis (PCA) and Cluster Analysis
  - Indicator composites of the main 'pillars' of flexicurity.
  - Analytic focus on emerging clusters, patterns of change and continuity.
  
- Qualitative appraisal of:
  - Key legislative change and its intention/impact.
  - National political rhetoric (e.g. National Reform Programmes).
  - Degrees of supranational agency influence (e.g. EC, troika, OECD).

# Principal Components Analysis

- 3 components = 74.59% variance.
- **Component 1** = Income and Employment Security
- **Component 2** = Labour market flexibility
- **Component 3** = Lifelong learning

Variable code	Description	Flexicurity element	Source
EPRC_V2	EPL weighted sum of sub-indicators concerning the regulations for individual dismissals (weight of 5/7) and additional provisions for collective dismissals (2/7)	LM Flexibility	OECD
EPT_V1	EPL Version 1 of the indicator for temporary employment measures the strictness of regulation on the use of fixed-term and temporary work agency contracts. It incorporates 6 data items.	LM Flexibility	OECD
LIMDUR1	Employees with a contract of limited duration (annual average): % of total number of employees.	LM Flexibility	Eurostat
Gra2	OECD NRR summary measure of benefit entitlements (including SA and HB).	Social Security	OECD
CHILD1	No formal childcare arrangements.	Social Security	Eurostat
LMPCAT8	LMP Category 8 – PPS terms for those wanting work.	Social Security	Eurostat
LMPCAT2-7	PPS per person wanting to work: Total LMP categories (categories 2-7).	ALMP	Eurostat
LMPCAT1	Labour market services PPS per person wanting to work.	ALMP	Eurostat
Life 3	Lifelong learning participation rates for employed persons (25-64).	LLL	Eurostat
Life6	Lifelong learning participation rates for those unemployed (25-64).	LLL	Eurostat

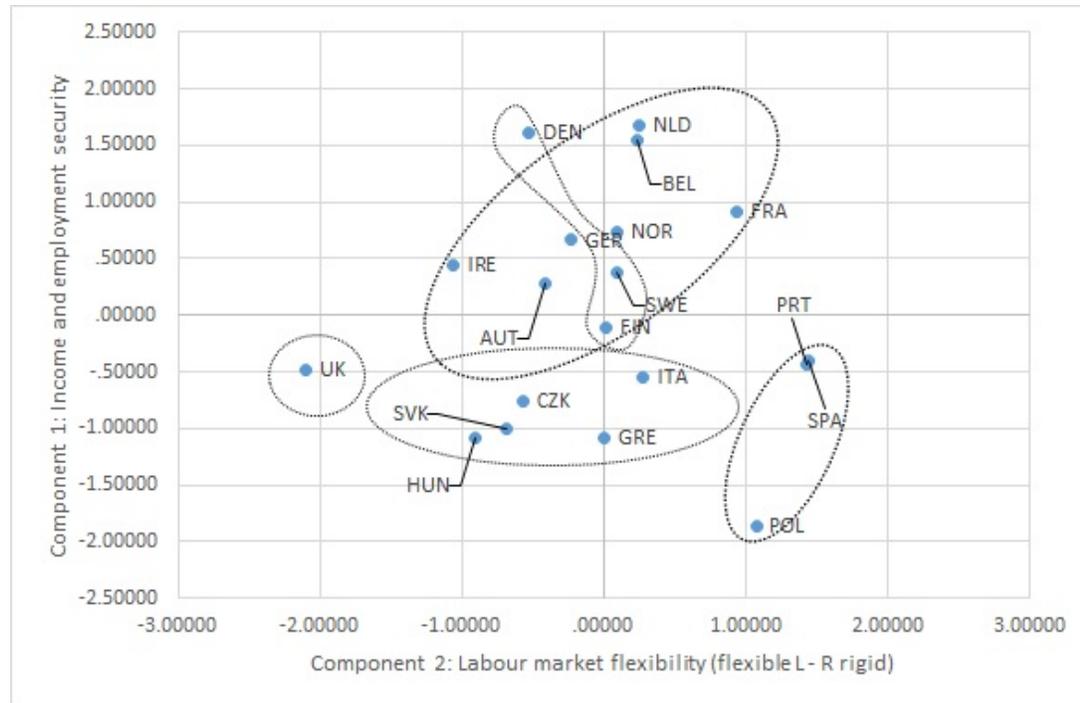
# Scatterplot 2006 (pre-crisis)



## Clusters:

- Anglo-outlier 1
- Anglo-outlier 2
- Northern European
- Southern European
- Iberian
- Eastern European outlier

# Scatterplot 2011 (post-crisis)



## Clusters:

- Anglo-outlier 1
- Northern European (+ 'Anglo outlier 2': Ireland)
- Southern European
- Iberian (+ 'Eastern European outlier': Poland)
- LLL cluster: Denmark, Sweden, Finland.

# Explaining policy responses

- Ireland and UK
  - Similarities:
    - Social security directions.
    - UK: WORK programme / welfare to work intensification.
    - Ireland : reduction in unemployment benefit rate (2009, 2014)
      - JobBridge (2011) / Gateway job activation schemes (2013) – sanction culture.
  - Differences:
    - Ireland weak EPL, high replacement rates.
    - UK erosion of worker rights.
    - Budget direction changing?
    - Lifelong learning trends: drop in UK rate (32% to 20% 2006/2012).
      - UK axing of educational maintenance allowance (helped young from low income families access education).
      - Ireland – LLL up from 10.4-12.1% over same period; expansion of Back To Education Allowance (BTEA)

# Iberian cluster

- Spain and Portugal: substantial changes, link to MoUs to troika
  - Portugal: Weaker severance pay entitlements, more flexible grounds for laying off workers/reductions in overtime pay.
  - Spain: Similar adjustments to employment law, reductions in length of notice periods/compensation following unfair dismissal (2011); collective dismissal rights reduced.
  - Austerity led erosion of social security pillars; restricted benefits for older unemployed (Spain), reduction in max duration of benefits (Portugal, 2012) – reduction in replacement rate figure (60 to 50% in Portugal 2008-2012).
  - ALMPs – emphasis on firm incentives to recruit/youth employment initiatives (e.g. social security exemptions; vocational training/ internship emphasis).

# Northern European cluster

- Limited amount of change.
- Reduction of social protections in certain respects;
  - Germany parental leave benefits down; transitional supplements for unemployed workers transferring from short-long term unemployment benefits removed.
  - Maintenance of flexicurity ideal in Denmark/Netherlands, although growing influence of workfare approach to benefits.
  - Relative lifelong learning boost in certain states; Ireland, Denmark, Sweden, Finland.

# Southern Europe/Visegrad cluster

- Extensions to maximum length of fixed-term contracts/reduced dismissal protection on regular contracts (Slovakia, Czech Rep.).
- Strengthening of social protection insurance system (Italy).
- Elsewhere severe reductions in social protections/replacement rates: Greece (Troika influenced); rise of means testing, limits on duration of benefits.
- Similar trend in Hungary.
- ALMP spending and participation in LLL remains low.

# Comparative institutional analysis

- Focus on identifying characteristics in the social policy domain shared by countries.
- Groupings not static! Change between/within.
- Shared *tendencies/overall* convergences (i.e. across VoC categories):
  - Reductions in social welfare; cuts/restrictions of benefits (e.g. family allowances, sickness benefits).
  - Focus on supply-side reforms to stimulate growth in jobs/economy.
  - Assault on employment protections – reductions in severance pay, longer probation periods, increases in freedom of employers to set dismissal criteria.
  - Policies/institutions have not become identical – but functions and goals are similar (Baccaro and Howell, 2014)

# Comparative institutional analysis

- Also patterns of divergence and paths followed;
  - Italy/Spain both experienced sovereign debt crisis/troika influence – yet different responses. (e.g. improved protections for non-standard workers / social benefits in Italy).
  - Importance of national policy makers and context of **economic circumstances**.
  - France/Spain – crisis as opportunity to push new labour market reforms.
  - Contrasts with directions in Denmark/UK – pre-crisis orientation of labour market policy **largely remains**.
  - Overall limited ability of VoC and related approaches to explain policy changes and responses to the crisis; interplay of economic circumstances, domestic politics (relations between governments, social partners) and supra-national forces key.

# Next steps

- Flexicurity research suggests path dependency is over-played.
- What about other aspects of regulation? E.g. labour law *enforcement*
- Comparing different liberal market economies (UK, Ireland, USA) based on research with the ILO and their approaches to regulation and labour law enforcement
- What are their respective approaches to regulation, are there differences and what stimulates their differences?