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Labour markets in Europe.

Edited by Julián Pérez

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Introduction

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After more than ten years of the formation of the Eurozone, many advances have been made in the standardization and real convergence among different economies integrated into the single currency area.

However, the recent economic crisis has shown us that there is still a long way to go, since the responses of individual members to the common shock that has led to this crisis have been significantly different in several ways.

In particular there have been very asymmetric responses recorded both in the evolution of public budgets and in the labour market.

It is this last aspect, the labour market trends, which will be analyzed throughout this paper, trying to shed some light on the different behavior observed among country members.

As a starting point, we can see that while the depth of the recession has been, with some exceptions such as Ireland and Finland, fairly evenly among member countries, the apparent effects on the unemployment rate range from the almost zero effect observed in Germany, Luxembourg and Austria, to the more than ten points of increased recorded by the Spanish rate.

From the viewpoint of labor demand, given that the contentions of production have been, as we said, quite similar across economies, the main differences have been recorded in the productivity performance, where, on one hand, most countries would have been a pro-cyclical behavior, with reductions in productivity in parallel with the containment of activity, and on the other hand, countries like Greece, Portugal and especially Spain, which have seen sharp increases in productivity gains during the crisis.

A second differential effect, although less intense than the previous ones, concerns the evolution of the labor supply: while in some countries such Ireland, Finland, Portugal, Germany and Italy the decline of the population should partially offset job losses, other economies would have registered increased in the labor supply jointly with the job destruction process.

Looking at these results we could anticipate that European labour markets have a high level of heterogeneity, from both the supply and the demand side, and it would be necessary to deep in the processes of harmonization in order not to undergo further distortions induced by asymmetric responses to common shocks.

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This study illustrates some of these differences, starting with an initial comparison between the developments in the European countries and the United States, and following by a specific analysis of two large area economies, Germany and Italy, that although they share some similar labor policy tools, their developments across current crisis have been quite different.

The report concludes with a review of the concept of *flexicurity* and its alternatives for measurement, understanding that the different levels of flexibility and security among countries determine the asymmetric responses of different economies.

Adjustment on the labour market during the crisis: a comparison Europe-United States

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The sharp contraction of activity during the recession triggered by the financial crisis led American and European companies to cope with an excess of labour. However, the ways to adjust the workforce have been very different across countries at the heart of the crisis. This leads to wonder what have been the most relevant strategies and their implications for the evolution of the labour market in the recovery phase.

During a major macroeconomic shock, companies adjust generally their staff with a lag comparing to the activity, causing a productivity cycle. Initially labour productivity declines as the decrease in activity is not immediately reflected in the number of employees. Then, labour productivity stabilises when the number of hours worked is adjusted downward, firstly by reducing the working time per worker and then by reducing the number of employees. Finally, labour productivity is rising during the phase of recovery, companies hiring with some delay. Thus, productivity is a pro-cyclical variable, in the sense that it is moving in the direction of the economic cycle. The length of the labour adjustment delay differs across industries (adjustment is often quicker in the service sector compared to manufacturing industry) and differs across countries as it can be strongly affected by the regulation of the labour market (the dismissal legislation, the possibility of using various means to adjust the labour force as overtime, temporary work, existence or not of short-time employment schemes, ...).

1.- Recent trends in productivity in Europe and in the U.S.

Obviously, the sharp recession that hit most economies at the end of 2008 and early 2009 affected the labour markets. However, the intensity of those adjustments differed markedly across countries. Regarding this point, a key indicator is labour productivity per worker. As mentioned in the introduction, the development in labour productivity shows to what extent the adjustment on the labour market have been sufficient or not after a major shock on activity.

In the U.S., companies have adjusted very quickly their staff to the contraction of activity. Productivity per head (GDP/non-agricultural employees) has almost been unchanged during the downward phase of the cycle in 2008 and early 2009. On the contrary, in the Euro area, productivity (total GDP/total employment) employment began to adjust only at the beginning of 2009, almost one year after the start of the recession. The number of employees has thus been adjusted with a rather long lag compared to the U.S. and to a more limited extent. In the course of 2009, when signs of recovery took place, those differences in behaviour of labour markets narrowed, but didn't disappear. In the U.S., after this unexpected period of stabilisation, productivity has increased sharply. In the Euro area, the decline in productivity came to an end early 2009, but the following rebound was limited and even showed a break in the last quarter of 2009 as GDP growth stalled. Moreover, in the second quarter of 2009, the level of productivity per worker stood 5% above the pre-recession level (2008Q1) in the U.S., while it had not fully come back to the pre-recession level at the same period in the Euro area.

Those figures highlight two opposite strategies between the U.S. and Europe regarding labour market policy. On the one hand, in the U.S., the main idea was to ensure the highest flexibility of the labour market, in order to keep staff overhang as reduced as possible despite an unusual shock on the activity. In the Euro area, facing an historical recession, governments have tried to keep the employees in the companies, with the main goal to avoid a major loss of human capital due to a strong rise in unemployment that might lead, as in the 70's and 80's, to hysteresis

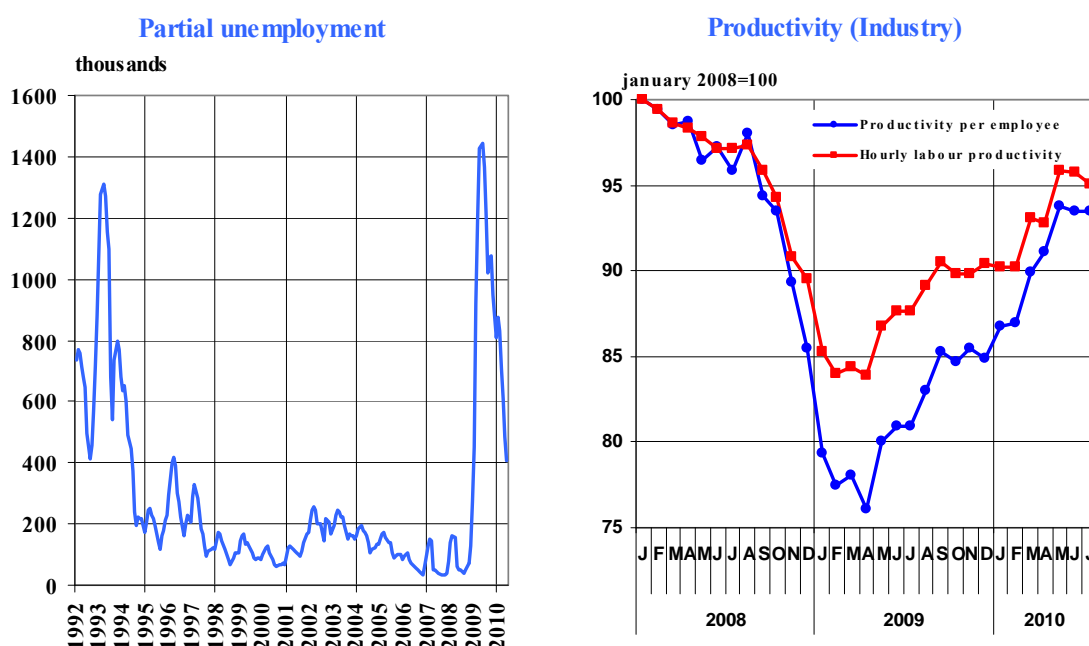
effects. Different measures were undertaken to reach this goal, especially encouraging short-time work rather than layoffs.

On this latter point, the profile for the Euro area adjustment in the labour market during the crisis has been strongly influenced by developments observed in Germany. Indeed, in this country, the number of employees did not react to the contraction in GDP in 2008 and 2009, a situation which differs dramatically to what has been observed in the U.S. Therefore, productivity per head decreased in the same proportion than GDP. The adjustment of the volume of hours worked took thus only the form of a sharp increase in short-time work and additional cut of hours work per employee. From around zero mid-2008, the number of people covered by a short-time work scheme reached around 1.5 million (4% of total workforce) at the beginning of 2009. Excluding persons partially unemployed, the GDP per person employed in the second quarter of 2009 (when the series of short-time work peaked) would have reached a level comparable to the level observed before the recession (2008 Q1). This is a proxy to say that hourly productivity was probably not as bad as might be thought regarding only productivity per head. But those calculations must be considered carefully as some people benefited of short-time work might work few hours in the week or in the month. An indicator of hourly productivity is calculated by the Bundesbank for industry. It appears that from 2008Q1 to 2009Q1, hourly productivity decreased by 14% while productivity per head fell by 21.5%. It shows that a gap between the two indicators of productivity exists, but hourly productivity has also decrease. Of course, the decline of production in industry at the early stage of the recession has been much more pronounced than for other economic activities. However, this is not sure that this indicator includes perfectly the non worked hours due to short-time work. Whatever the magnitude of the adjustment or more precisely of non adjustment of employment, it is clear that the strategy of the German government has been to encourage firms to use partial unemployment rather firing their employees to cope with the cut in activity. Several fiscal measures aimed to make this approach more interesting for firms (higher participation of the government, extension of the length of such schemes ...). To some extent it was a bet on the

future, considering that the recession was hard but might be short. This public support has tried to help private companies to face the reduction of activity at a lower cost. Of course, the main risk is that the recovery will be mild and that finally the number of employees needs to be adjusted downward. This is still too early to determine if the German strategy was the best. At the end of 2009, the number of people under a scheme of partial unemployment was nearly halved compared to the peak, but it still concerned more than 800 000 persons. Six months later, according to some estimation from the Ministry of Labour, it was half again, the number of people concerned by short –time work was 400 000. Hourly productivity in industry as measured by the Bundesbank increased by 18.5% between 2009Q2 and 2010Q2, but it remained below the pre-recession level.

Graph 1.

Germany: adjustment in the labour market



Source: Coe-Rexecode

By comparison, in France, employment has been adjusted more significantly than in Germany during the recession. In the second half of 2008, employment declined at a less pronounced rate than GDP, so that productivity per worker

decreased. But then employment continued to decline, so that the level of productivity per worker reached the pre-recession level as soon as the second quarter of 2009, and stood above that one afterwards. At the heart of the recession, the adjustment in employment took the form of a non renewal of temporary contracts. The loss of about 200 000 temporary jobs counted almost for one half in the 464 000 net job losses observed in the private sector between the first quarter of 2008 and the second quarter of 2009. Short-time work was also used by French companies as a tool of adjustment of employment but to a lesser extent than in Germany. According to the quarterly survey published by INSEE, the number of persons concerned by short-time work jumped from 32 000 in 2008Q1 to 275 000 in 2009Q2. Then, it decreased to reach 126 000 in 2010Q4. At the peak, partial unemployment represented 1.2% of total employment (and 1.7% of employment in the private sector). In other words, the implementation of facilities to use partial employment has avoided an increase of the unemployment rate by around 1%. Here, it must be reminded that between 2008Q1 and 2009Q2, the unemployment rate in France increased from 7.2% to 9.1% (or by 1.9 percentage point), before reaching 9.6% in the final quarter of 2009. Therefore, we can consider that the use of short-time work was not negligible to avoid hysteresis effects on the labour market.

Table 1
France: partial unemployment

	2008				2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Number (thousands)	32	102	55	123	171	275	177	166	217	126
Share in employment (%)	0,1	0,4	0,2	0,5	0,7	1,1	0,7	0,6	0,8	0,5

Source: Insee, Quarterly survey on employment

It is not the aim of this paper to review in details for all countries the developments in the labour market during the crisis². But two other examples are of interest.

The U.K. is often quoted as one of the countries where the labour market regulation is the less restrictive and thus where the economy is the most flexible. However, the adjustment of employment during the crisis has not been especially quick. Some analysis explain this resilience of the British labour market by several factors as the contra-cyclical effect of public employment and the fact that employees and companies agreed to favour wage freezes rather than cuts in staffs³. Indeed, contrary to what was observed in the U.S., productivity has only begun to improve since the first quarter of 2009. This is probably due to the fact that the recovery in the U.K. economy remained very mild through 2009.

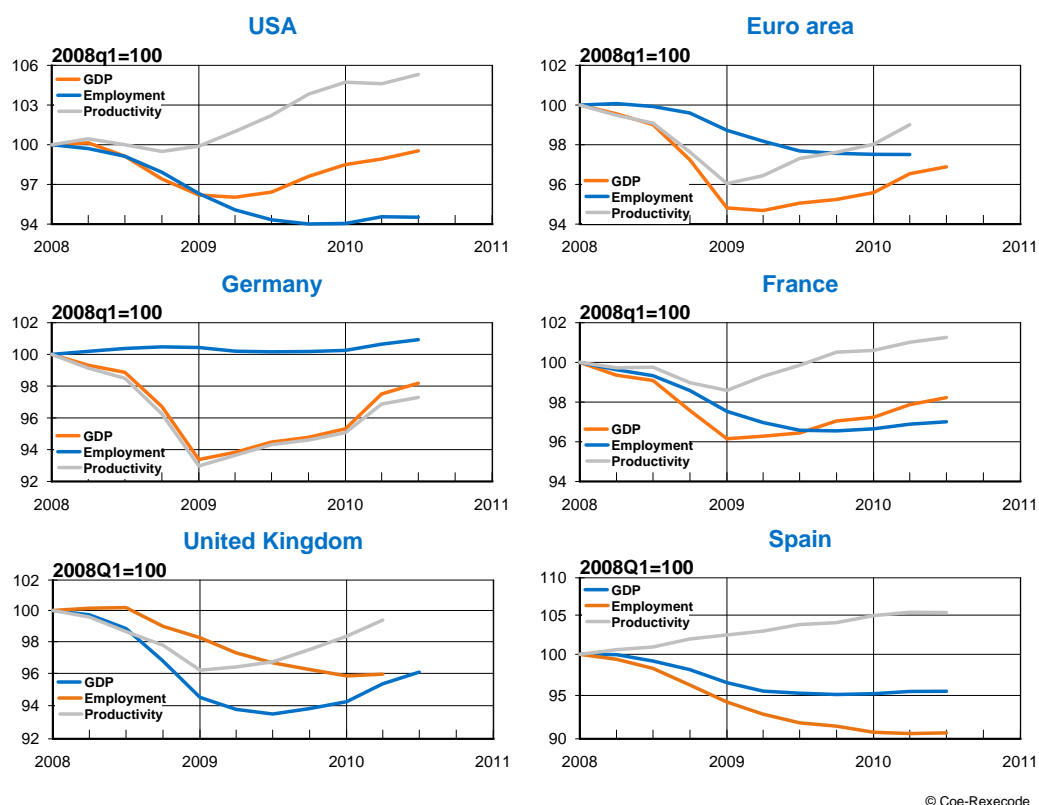
On the opposite, in Spain, where the protection for regular employment is considered as one of the highest among OECD countries (OECD, Economic policy reforms 2010), the adjustment of employment has overpass the decline in activity, so that productivity per employee has continued to be on the rise, although the Spanish economy was still in recession at the beginning of 2010. This can be explained by the fact that adjustment in employment took mainly the form of cutting temporary jobs, which have been developed intensively during the economic boom, precisely in reaction to the tough labour market regulation.

² See the paper on Italy in this report to get a comprehensive view on the developments of the labour market in this country.

³ “The UK Labour Market Conundrum”, UK Weekly, 15th January 2010, Oxford Economics.

Graph 2.

Adjustment in the labour market in some OECD countries during the “Great” recession



2.- The consequences of labour market adjustments on the companies' financial results.

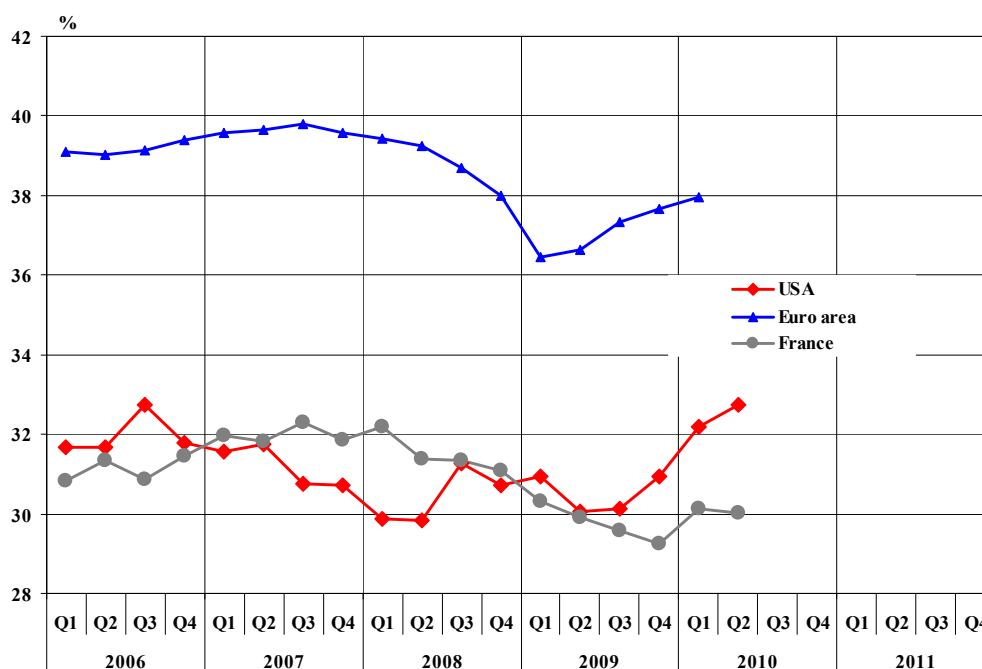
Analyzing the balance sheet of companies is another way to examine whether the adjustment in the labour market has been sufficient or not to respond to the decline of activity. Indeed, the lack of reaction of the labour markets to lower activity might cause a deterioration of financial results of companies. As a consequence business investment can be hit and potential growth reduced. Of course, financial results of companies can be affected by other factors that labour productivity as a full analysis should also include nominal aspects, especially in line with the behavior of the remuneration (salary, bonuses, social contributions, etc.). It must also be kept in mind that the decline in raw material prices in the

second half of 2008 alleviated the burden on companies' financial results, while the opposite was true afterwards.

Thanks to rapid adjustment of staff, U.S. companies succeeded to preserve profit margins, despite the contraction of activity and even improved them. In the Euro area, on the opposite, the magnitude of the productivity cycle has weighed on the margins of enterprises, at least in the second quarter of 2009. Mid-2010, the financial situation of companies had not been fully restored. In France, the share of profits in the value added was reduced by two percentage points in 2008 and 2009, so at a less extent than in the Euro area, but the recovery of profits was a bit delayed by three quarters compared to the Euro area.

Graph 3.

Share of profits in the Value Added



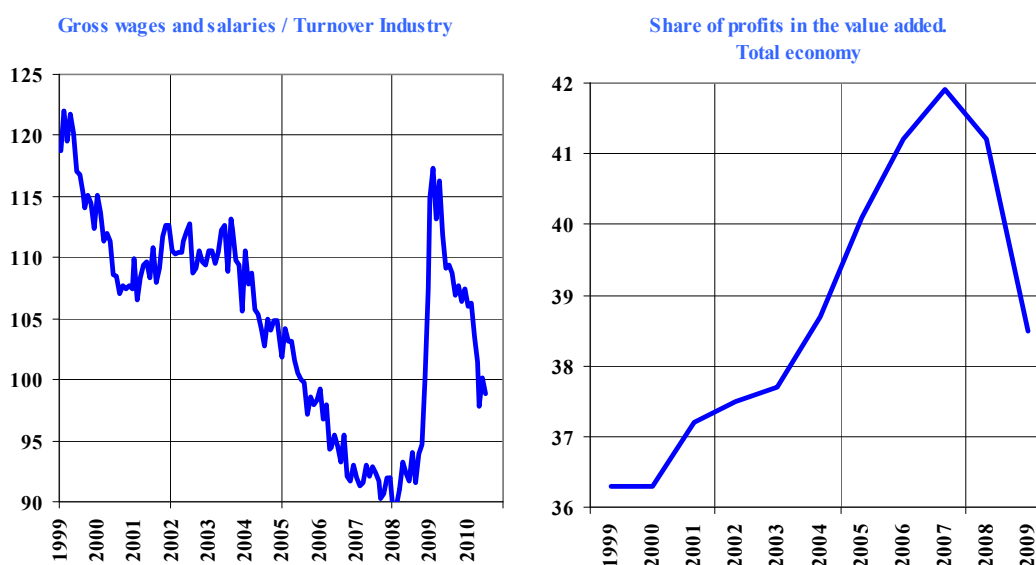
Source: COE-Rexecode.

A special focus on Germany is of special interest as this country has opted for an original way regarding the adjustment of the volume of labour to lower activity. Since the beginning of the decade, a tough discipline on wage developments had led to a large increase of the share of profits in the value added. According to

national accounts, it jumped from 36.3% in 2000 to 41.9% in 2007. Then it declined to 41.2% en 2008 and can be estimated at 38.5% in 2009. This is a rather sharp adjustment downward. However, at this level, the share of profits in value added remains much higher than 10 years ago. If we consider the ratio between wages and the turnover in manufacturing industries, it can be seen that while it had steadily decreased in the years before the crisis, it increased sharply in 2008. But since the beginning of 2009, it is decreasing again. However, this ratio remains stil above the pre-crisis level. This means that the deterioration of companies' financial results in the heart of the crisis was much more pronounced in manufacturing industry rather than on economic activities. This is due to the fact that activity dropped at a higher rate in manufacturing industry than the whole economy. But the intensity of recovery has been also more pronounced for manufacturing industries, so that the swing in profits is also more pronounced.

Graph 4.

Germany



Source: COE-Rexecode

3.-What conclusions can be drawn for the future of labour market developments?

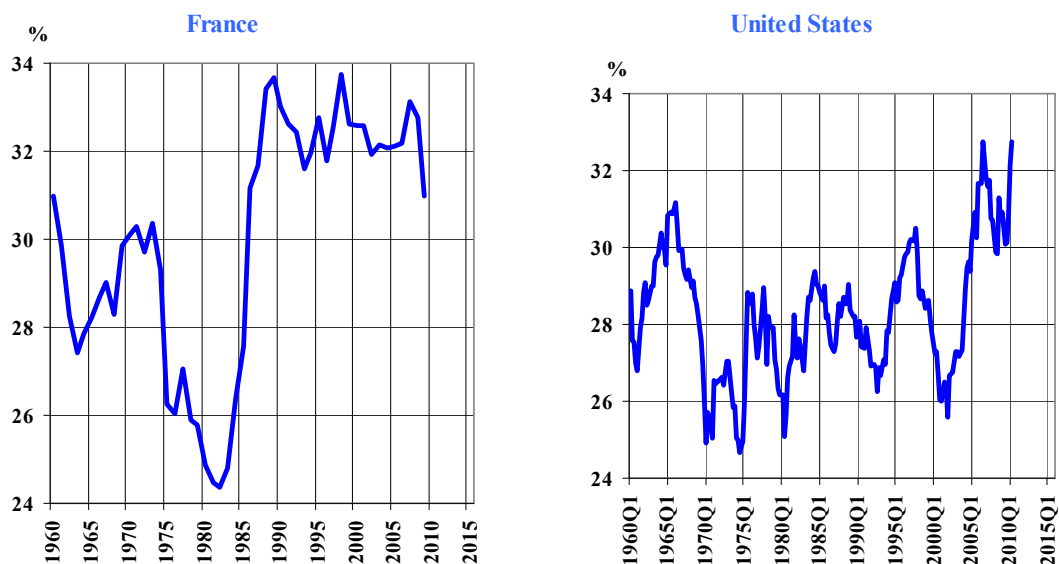
In conclusions of this short survey on labour markets developments during the crisis, it appears that the strategies chosen by public and private actors have differed markedly across countries.

Nevertheless, with the main exception of Germany, it seems that financial results of companies resisted quite well to the “Great recession”. Of course, in terms of amounts of Euros or dollars, there were heavily impacted by the slack of activity. But in terms of ratios, it seems that the structure of the value added has not changed dramatically during the crisis. The respective shares of profits and wages have been quite stable. Again this is not true for Germany, but German companies were able to use the rooms of maneuver accumulated before the crisis. It is worth to notice that profits recover rather quickly once the activity bounces back.

This idea can be highlighted by the two examples of the U.S. and France. In the 70’s, after the first oil shock, the share of profits in the value added declined sharply in the two countries. It means that the adjustment of labour (both in terms of number of employees and in terms of wages per employee) was not sufficient as regards the weakness of activity. On the opposite, as already mentioned, despite the magnitude of the shock on activity, companies in France and in the U.S. were able to adjust their staff in such a way that they preserved the structure of remuneration of labour and capital in the value added. This is due to the reforms implemented in the 1970’s and 1980’s to make the economies more flexible. This is also due to the competition between emerging and developed countries that spurred the economic competition, putting more pressure on workers in advanced countries

Graph. 5.

Share of profits in the value added (non financial corporations)



Source: COE-Rexecode

This is very important for the future as sound financial results might avoid that the crisis hits too much the capacity to invest and to hire when the recovery will be more visible.

Finally, we compared in this short paper the current level of productivity with pre-crisis levels. But a connected question regards the trend of productivity. If productivity growth just equals in the future long-term past trend, it will indeed translate into a permanent loss of productivity, leading to a permanent loss of wealth. Time is needed to see what will be the future developments both of the US and European economies regarding this aspect.

Germany's labour market in the current recession: Why this time is different

Roland Döhrn and Simeon Vosen⁴
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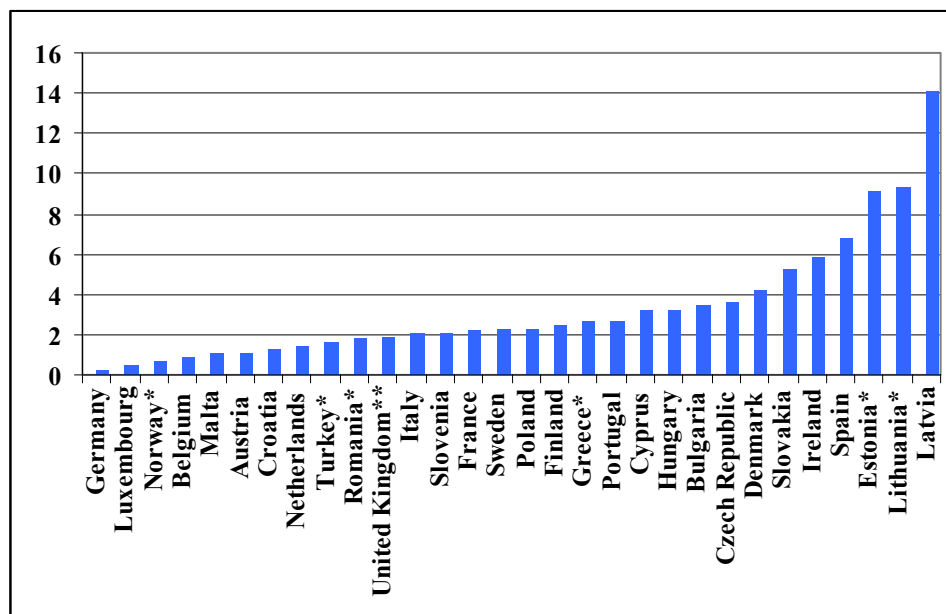
1. Introduction

In spring 2009, when it became clear that Germany was in its deepest recession since WWII, labour market forecasts were looking pretty gloomy as well. A rise in unemployment back to 5 million did not seem out of reach. Although the government had already initiated measures to mitigate the employment effects of the recession – in particular by extending the short-time work scheme –, this was expected to at best reduce the pace of job loss. At the time, unemployment had already started to rise, and over the next months the figures mostly confirmed the negative forecasts. Yet, since mid 2009 the German labour market has evolved much better than expected and unemployment has gradually declined again ever since. Not even the cold winter could disturb the recent downward trend. As a result, in March 2010 the seasonally adjusted unemployment rate (ILO definition) was just 0.2 percentage points above its “pre-Lehman” level of 7.1 % in September 2008. This means that the labour market impact of the current economic crisis has been lower in Germany than in any other EU country (chart 1), which is surprising, since Germany took one of the hardest hits with GDP falling 4.8 percent in 2009. In France for instance, GDP declined only by 2.2 % in 2009 but unemployment is now 2.2 percentage points above its level in September 2008. In earlier recessions Germany has displayed relatively strong labour market responses to economic downturns and in the following upswings unemployment tended to decrease rather hesitantly. Why has this time been different in Germany? Why was the country, despite its relatively rigid

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employment protection laws, better able than others to adjust to the economic downturn?

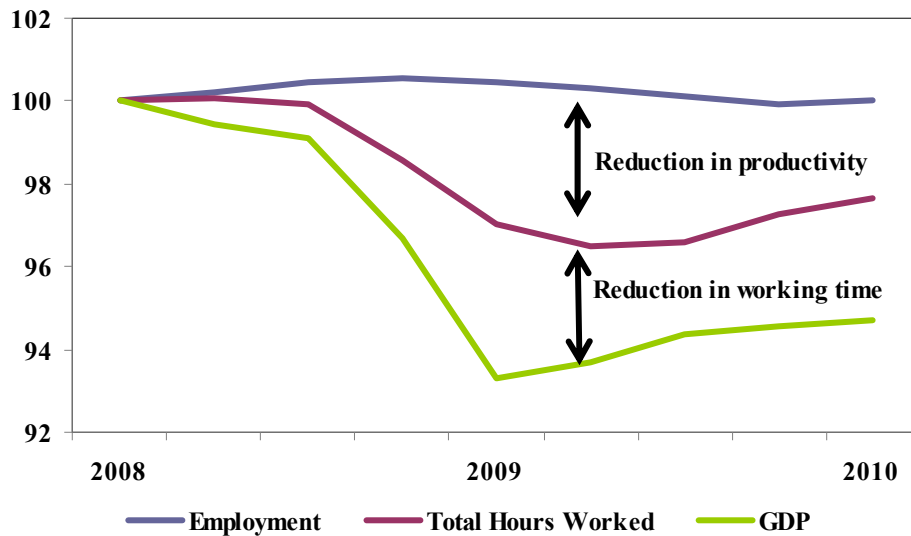
Chart 1:
Change in Unemployment Rates (ILO definition):
September 2008 – March 2010 (in percentage points)



Source: Eurostat. - *December 2009. - **February 2010

To identify possible explanations for “Germany’s jobs miracle” (Krugman 2009), it is helpful to break the huge difference between changes in GDP and employment into its components. Chart 2 shows that in this concept labour demand – measured by the total volume of working hours – marks the central line. Whereas GDP dropped by about 6.7% from peak to trough during the recession, labour demand declined by barely 3 %. The difference between the two lines equals the reduction in hourly productivity. The difference between total hours worked and employment – which still increased about 0.4 % in this period – marks the reduction of the average working time per employed person. To understand the decoupling of production and employment in the current recession, both components need to be addressed: What caused the reduction in average working time and why did companies allow for a reduction in productivity.

Chart 2.
Components of the GDP-employment gap



Source: Destatis

In what follows, we first discuss some explanations for the drop in productivity, which has a lot to do with the sectoral distribution of the crisis (section 2). Section 3 deals with the reduction of average working time. To analyse what caused this phenomenon, we first look at the long-term trend in working time and then discuss various factors that contributed to the pronounced drop in this recession. These include policy measures such as the short-time work scheme, the increase in part time employment, but also the reduction of overtime work, and more flexible working time regimes that have been included in many wage agreements in recent years. We also pay attention to the role of structural change in this regard.

2. The reduction in productivity

One key feature of the current recession is that compared to previous downswings companies entered the current one with much higher cash flows, higher profitability and financial health. The export-oriented manufacturing industries, which were primarily affected by the demand slump, were highly

competitive not only due to successful specialization but also to declining real unit labour costs in the years preceding the recession (chart 3). This created a buffer that allowed firms to absorb a certain drop in productivity.

Chart 3:
Real unit labour costs



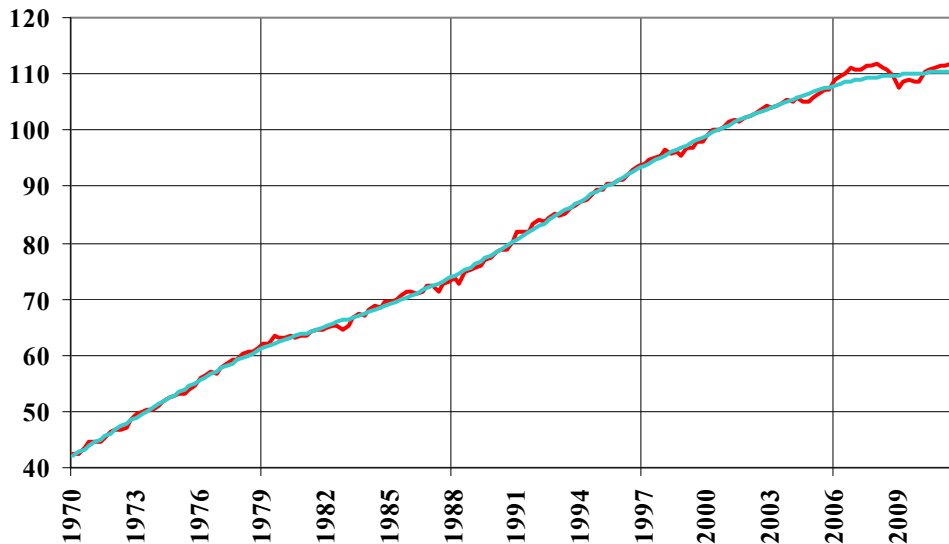
Source: Destatis

Moreover, a lot of highly specialised companies entered the downswing facing shortages of skilled labour, such as engineers and IT specialists. Despite the reduced demand, firms in most manufacturing industries reported even greater recruitment problems in the 4th quarter of 2008 than in the year before (IAB, 2009).⁵ As a result, unlike in previous recessions, productivity levels were significantly above trend (chart 4) and firms much more reluctant to reduce their workforce as dismissals would entail not only losses in firm-specific human capital but also higher costs for hiring in the next upswing. Given the country's

⁵ According to the *IAB Survey of Vacancies in the Total Economy* (wave 2008 Q4), firms in the manufacturing industry reported problems in filling up to 48 % of the vacant positions. Möller (2010: 331f.) shows that the crisis particularly hit firms suffering from shortages of trained workforces.

demographic prospects, the shrinkage of skilled labour supply was an issue high on the agenda of many firms.

Chart 4:
Average productivity, long-term trend



Source: Destatis, Trend computed using HP-Filter ($\lambda=1600$)

These factors explain why so many of the crisis-stricken firms in those sectors pursued strategies of labour hoarding and allowed for the substantial drop in productivity. Additionally, periods of weak demand also lower the opportunity costs of measures such as training workers and restructuring processes, thus temporarily reducing workers productivity but increasing it once these measures come to bear.

3. The reduction in average working time

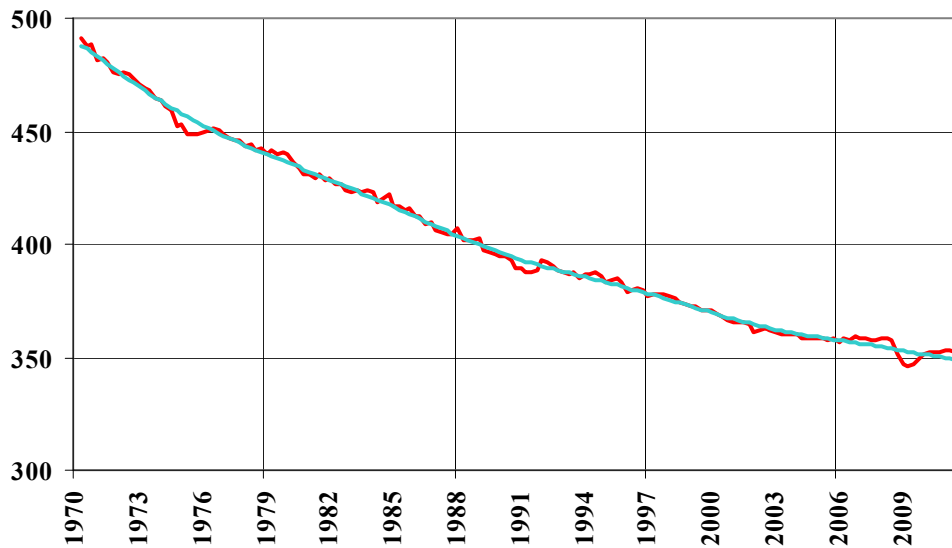
3.1. Long-term trends of average working time

Like in many other countries, average working time in Germany has displayed a downward trend since 1970 (Chart 5). This partly reflects a widespread reduction of working hours in collective agreements. But it has also been a

consequence of the continuously increasing share of part time work. Additionally, the labour market reforms of 2003 introduced a new labour market segment – the so called minijobs in which workers may earn up to 400 € per month not subject to income tax – which implies a rather small number of working hours. This kind of employment quickly became very popular and in 2009 approximately 4,9 million persons were occupied in a minijob. However, ignoring the most recent drop in the current recession for a moment, average working time appeared to have levelled off since the last recession in 2002. Indeed, the collectively agreed working time did on average not decrease since 1998. In some sectors, like the public sector, trade unions and employers even agreed on longer working hours.

But now, in the view of the experience of the two recent years, doubts arise whether the stabilization between 2002 and 2008 really marked a break in the downward trend of average working time. In this context it has to be mentioned that in the same period GDP grew strongly, peaking at 3.2% in 2006, which was the highest rate since the re-unification. The economic boom and the shortages of skilled labour that many firms faced, also lead to an unprecedented rise in overtime work which temporarily stabilized the level of average working time. As the crisis unfolded and positive balances on working-hours accounts were quickly reduced, it became increasingly obvious that the downward trend in average working time had just been temporarily interrupted by the favourable macroeconomic environment but not stopped.

Chart 5:
Average working time, long-term trend



Source: Destatis, Trend computed using HP-Filter ($\lambda=1600$)

The pronounced drop in working time in the winter of 2008/2009 was then caused by various factors. Some of them are typical for downswings in the business cycle: Overtime work was reduced, and firms made use of the short-time work instrument, intending to retain their staff in times of low demand. Some other factors, however, were new in this recession:

3.2. Working time accounts and corridors

From around the mid-1990s onwards rigid working hours were increasingly replaced by regulations that allow companies to make more flexible use of their staff. In the years preceding the downswing, trade unions and employers had established working time accounts, enabling workers to save up overtime hours during busy periods – and to reduce overtime pay for the employer.⁶ When business is slow, surpluses on working time accounts can be reduced by taking

⁶ According to preliminary results of the 2009 wave of the IAB establishment panel, the share of firms with working-time accounts has increased from 21% in 1999 to 32% in 2009 (Möller 2009: 331).

paid time off. Working time accounts can thus serve as a buffer in both good and bad times. According to IAB (2010), in 2009 balances in working time accounts were reduced by an average of 9.3 hours per worker, thus contributing substantially to the reduction in average working time. Paid overtime also dropped by 13 hours per worker. Besides this, opening clauses in many collective agreements provided adjustments of regular working hours (e.g. working time corridors) and wages to order levels. For instance, in the chemicals industry, where a regular working time of 37.5 hours per week applies, it may vary between 35 and 40 hours. In the metal industry, collective agreements allow for a reduction of weekly working time of up to 10 hours.

3.3. Extension of the short-time work scheme

Short-time work has long been an important instrument to allow companies to adjust to business cycle fluctuations. Under the scheme companies are subsidised by the government to reduce workers' hours rather than laying them off, by making up some of workers' lost income.⁷ In Germany, the instrument was already introduced in 1918. In the 1920s and earlier 1930s it played an important role to mitigate unemployment. After World War II short-time work schemes were again introduced in West Germany and played a particularly important role in the recessions following the two oil crises, when the number of short time workers rose up to 0.9 million in 1975 and 1.2 million in early 1983.⁸ After the German re-unification, short time work was widely used in East Germany in order to manage the transformation of the economy. In 1991, the number of short time workers skyrocketed to more than 2 million, almost 6% of total employment.

⁷ The Federal Employment Agency pays short-time workers 60% (67% to households with children) of their net wage differential.

⁸ Brenke et al (2010: 2-5) provide a more detailed historic overview.

In the current recession short-time work served as the prime policy instrument to the labour market. The government extended the funding period of the short-time work scheme and reimbursed 50% of the social security contributions for employees under this scheme.⁹ Thus, the policy was mainly directed at keeping people in employment, as it had also been proposed by the European Commission (Carone et al., 2009). With the onset of the economic crisis in late 2008 the number of short-time workers soared once again, peaking at over 1.5 million in May 2009. Since then it has been rapidly declining again to about 830,000 in March 2010. On average, short-time workers worked roughly two thirds of their regular hours in 2009, implying a full-time equivalent of 370 000 employees. Given the shortages in skilled labour, the main reason why short-time work has been so popular with firms, is that it allows them to keep their work force intact and hang on to skilled workers.

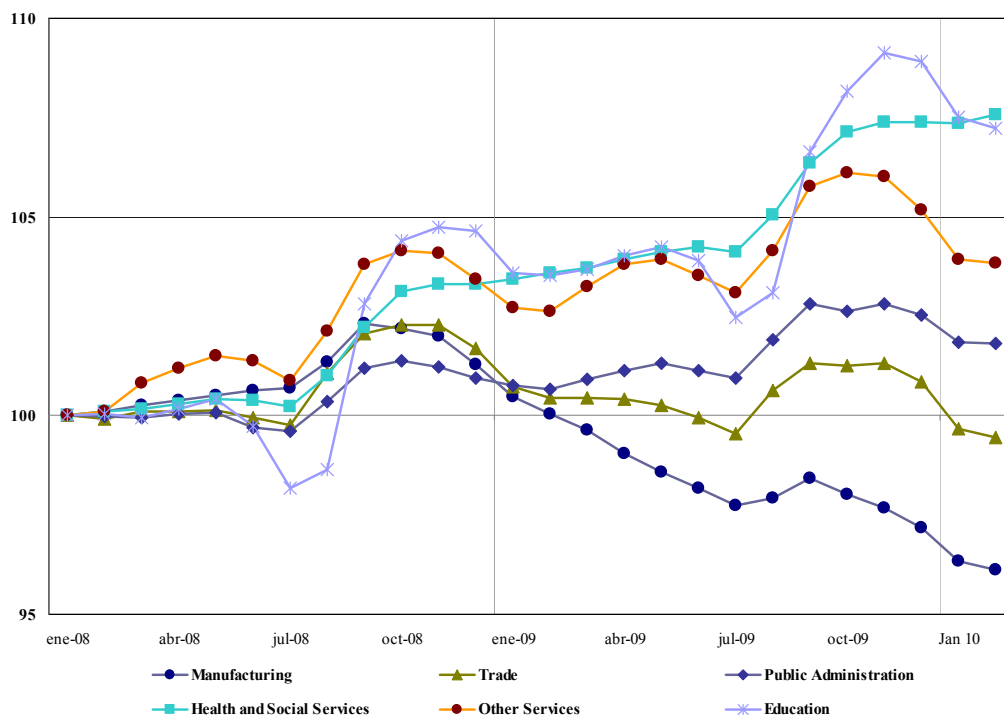
3.4. Structural change

Further, to explain the drop in productivity, structural factors need to be taken into account. First of all, the share of part-time workers increased substantially. While full-time employment subject to social insurance contributions dropped by 360 000 in 2009, part-time employment rose by 270 000 and the number of mini jobs by 80 000. This shift reflects not so much full-time jobs being replaced by part-time jobs; it is more a feature of structural change in the sectoral composition of the economy which accelerated in the recession. Employment was reduced in the manufacturing sector but it increased in the services sector in which part-time work is much more widespread. Chart 4 shows how employment subject to social insurance contributions has evolved in various industries. Whereas in manufacturing it dropped substantially, the services industries fared way better. In the trade sector, employment remained by and

⁹ The maximum funding period for 2009 was extended from 12 to 18 months and since May 2009 up to 24 months for the remainder of the year. For 2010 the funding period is again back to 18 months. If employees take part in upskilling and training measures social-security contributions are reimbursed completely.

large stable and in health and social services as well as education it increased significantly.

Chart 6:
Employment in selected industries



Source: Federal Employment Agency

4. Summary

Germany's labour market has remained surprisingly unharmed by the current recession. This study shows that its new resilience compared to earlier recessions is mainly attributable to the economic slump's favorable sectoral composition and to flexible labour market institutions with regard to working time. The crisis primarily hit the highly competitive and profitable German manufacturing industry. Other sectors, such as the health service and the public services, remained largely unaffected and continued to display employment growth particularly with regard to part time employment. In the manufacturing industry, however, firms were reluctant to lay off workers, having just

experienced significant shortages of skilled labour in the preceding boom. Accordingly, at the onset of the crisis productivity levels were high and since labour costs had risen only moderately in the previous years, many firms were able to keep their staff in spite of sharp drops in productivity. Moreover, firms in this sector made extensive use of measures to reduce workers' hours. They benefited from the institutional flexibility of collective agreements with regard to working time and from the extended short-time work scheme. According to estimates of the German Bundesbank, short time work contributed 31 % to the reduction in average working time between Q4 2008 and Q4 2009. Reduction in overtime work and the use of surpluses on working-time account for 10% each, the reduction in regular working time for 20% and, finally, the increase in part time employment for 29%.

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The impacts of the economic crisis on the Italian labour market.

Marina Barbini and Valentina Ferraris

The economic crisis has not spared Italy. The first signs of deterioration in the business cycle were observed in the Autumn of 2008, but it was 2009 that was to hit hardest as the worst in post-war years. Moreover the size of the crisis was more intense in Italy than that observed in other countries, resulting in a fall – in one year – of almost five percent in GDP. The severe contraction in economic activity was probably determined by a set of factors. Firstly the recession in Italy came on top of what was already very weak performance. It also hit industry particularly hard, with particularly strong repercussions on industrially based economies, of which Italy is one. Furthermore, Italy made less use of fiscal policy than other countries to support domestic demand.

The response of the demand for labour on the labour market, was relatively modest, compared with what would have been justified by the magnitude of the fall in output.

The large reduction in GDP was accompanied by a relatively small fall in employment and the unemployment rate did not increase excessively. It increased by one percentage point in one year to reach 7.8 percent in 2009, lower than the average for EU countries for which the rate stood at 8.2 percent. Job losses amounted to 334 thousand between 2008 and 2009, equivalent to a reduction of 1.4 percent in employment.

The large fall in output in a situation in which employment rates remained fairly stable led to an almost vertical drop in labour productivity rates and a very substantial increase in labour costs per unit of output. These factors therefore lead to the conclusion that the downwards adjustment of employment rates has not yet finished; indeed, the deterioration in the labour market has continued again in 2010.

1.-Labour hoarding in Italy

The delay with which employment reacted to the business cycle is attributable in part to the normal time lag between changes in output and employment. This behaviour, known as “labour hoarding”, is fairly commonplace during recession periods, but the magnitude of the phenomenon in progress during this most recent phase of the business cycle has been rather particular. The phenomenon of labour hoarding consists of a fall in productivity per worker during recession periods.

This behaviour manifested during the last crisis not only in Italy but also in other countries in continental Europe such as Germany and France. The explanation for labour hoarding is that both dismissals and new appointments have a cost for businesses which therefore have an incentive to retain excess workers, even if there is momentarily little for them to do. Generally this translates into a reduction in overtime, the use of accumulated vacation, greater use of part-time workers and finally into recourse to specific mechanisms which allow production to be temporarily suspended or reduced without the need for dismissals and also for the temporarily suspended workers to receive a part of the income which they earned previously. Italy and Germany are the countries in Europe where greatest use of these instruments (*Cassa Integrazione Guadagni, CIG*, in Italy) has been made; they have in reality bound workers closely to their jobs and held the demand for labour high. The number of workers on CIG schemes are in fact classified by the Italian national office for statistics (ISTAT) as employed and this means that the limited response of employment to the business cycle follows from the relative employment statistics.

The *cassa integrazione guadagni* scheme is a labour policy tool that is widely used in Italy, and in part plays a substitute role for other mechanisms designed to alleviate hardship. It achieves the dual objective of providing an alternative income to that provided by a company wage, thereby facilitating the return of workers to their jobs when the business cycle recovers and also of benefiting the

companies themselves which cannot bear recruitment costs during the subsequent recovery.

Box - The Cassa Integrazione Guadagni (CIG) scheme

The principal tool used in Italy to prevent dismissals and conserve jobs is known as the *Cassa Integrazione Guadagni* (CIG – literally the “income supplement fund”). It is basically a wage supplement provided for workers who are temporarily laid-off work. Managed by the *Istituto Nazionale della Previdenza Sociale* (INPS – national insurance institute), it is used mainly by medium and large sized companies in the manufacturing and construction industries. There are two regimes within this system: the ordinary wage supplement (CIGO) and the extraordinary wage supplement (CIGS). The CIGO scheme can be used when a company either puts workers on part time or lays them off completely due to transitory events or temporary market difficulties. The benefit paid under CIGO schemes can be used for manual, office and management workers in industrial companies in general and in industrial and trade businesses in the construction industry. The benefit paid under CIGO schemes amounts to 80 percent of the total pay per hour not worked and it is paid for up to a maximum of 13 consecutive weeks, or for a maximum of 52 weeks under exceptional circumstances.

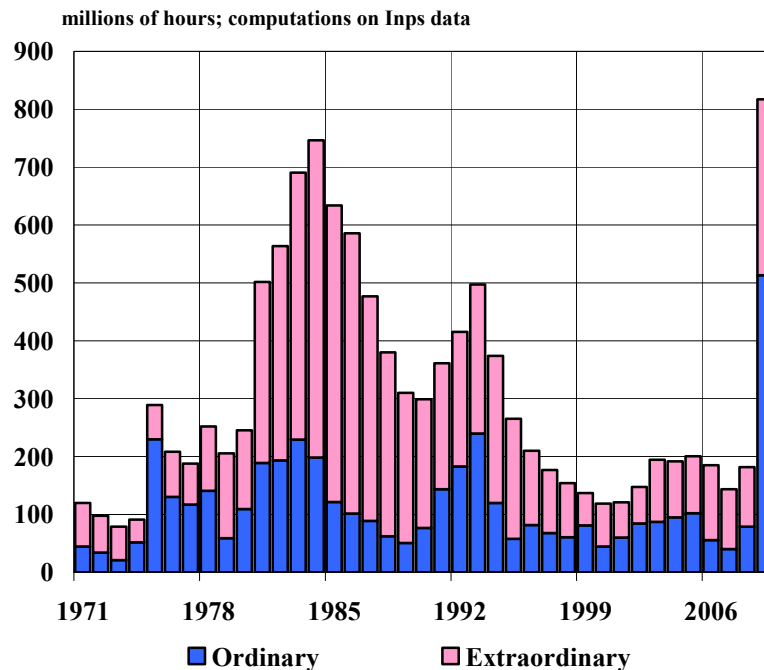
The CIGS fund on the other hand is employed when a company reduces or suspends production due to restructuring, reorganisation or a crisis which results in redundant labour or in bankruptcy proceedings. Here too, the fund pays workers for the hours not worked. The CIGS schemes are also reserved to workers in industrial companies with more than 15 workers and to commercial companies with more than 200 workers. The CIGS schemes pay 80 percent of wages for hours not worked up to a maximum period of 24 months.

Moreover, the massive use of CIG schemes in Italy was favoured by the decision made by government to invest strongly in these instruments in the months immediately following the first signs of a downturn in the business cycle.

It is in fact possible to provide benefits under CIG schemes even for workers laid off due to company or employment crises in sectors that are not normally covered by the ordinary CIGO or extraordinary CIGS schemes (by using what are termed *Cassa integrazione in deroga* or exceptional CIG schemes). This extension of the schemes covers *artisan* firms (small and very small firms employing skilled manual workers) (which lifts the limits on the size of companies in place under the existing schemes) and also different types of employment contract.

Furthermore, income support measures were also introduced for *atypical* workers (apprentices and workers on temporary contracts) who satisfy certain conditions. An experimental scheme was introduced for the latter for the three year period 2009-2011 termed *bonus precari*, (bonus for precarious or insecure workers), by which those who have lost their jobs receive a special benefit of 20% of the income previously received (recently brought up to 30%). The budget allocated by the Italian government to finance these exceptional schemes totalled eight billion euro for the two year period 2009-2010. The law established that this spending will be met partly by central government (which will contribute 70 percent and partly by the regions (which will contribute the remaining 30 percent). As a result of these specific changes that were introduced, the number of hours of CIG paid in 2009 grew to a much greater extent than in previous cyclical downturns. The total number of hours of CIG authorised more than tripled compared to 2008 to reach 918 million (223 million in 2008, an annual increase of 311 percent) which exceeded the previous negative record of 1984 when 816 million hours were authorised.

Graph 1
Hours of CIG authorised in Industry



Source: Ref computation on INPS data

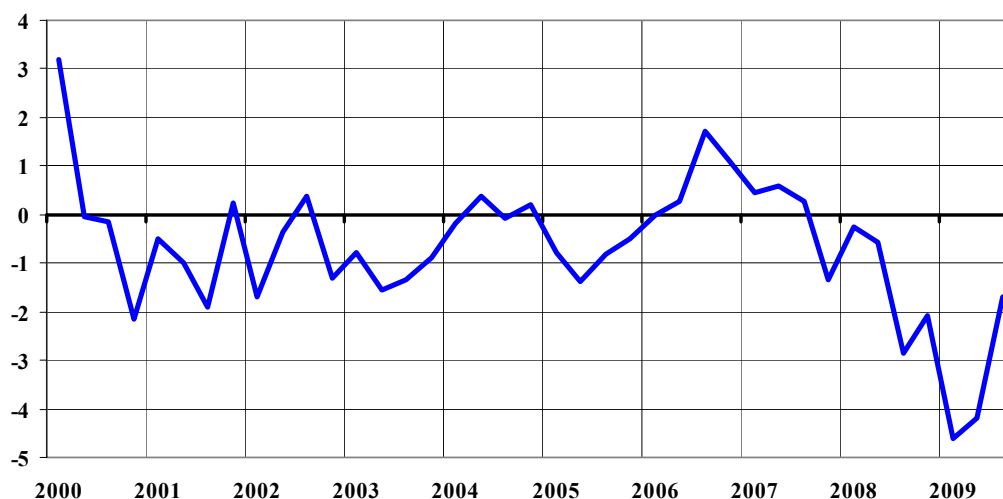
At sector level, the growth in the number of hours of CIG requested was exceptionally great in manufacturing (industry in the narrow sense of the word), while requests in the construction sector were much more variable, but nevertheless recorded progressive growth generally. An estimate of the impact on labour demand (i.e. an assessment of the number of workers placed on CIG schemes) shows that the average number of workers temporarily laid off in 2009 was approximately 285 thousand in industry in the narrow sense of the term (69 thousand in 2008). The percentage of employed persons who do not in reality participate in production has thus increased significantly over the last year. If regular employees in industry are considered, it is estimated that the proportion of employed persons in CIG schemes reached almost 7 percent in 2009.

The heavy use of CIG schemes has therefore allowed, until now, the Italian labour market to absorb the impact of the production crisis, by fully fulfilling its function of preventing dismissals. The response of demand for labour to the lower

production levels was in fact explainable more than anything by the contraction in the number of hours worked per capita which, in the middle of the crisis, fell progressively, above all in industry.

Graph 2

Hours worked per capita. Industry

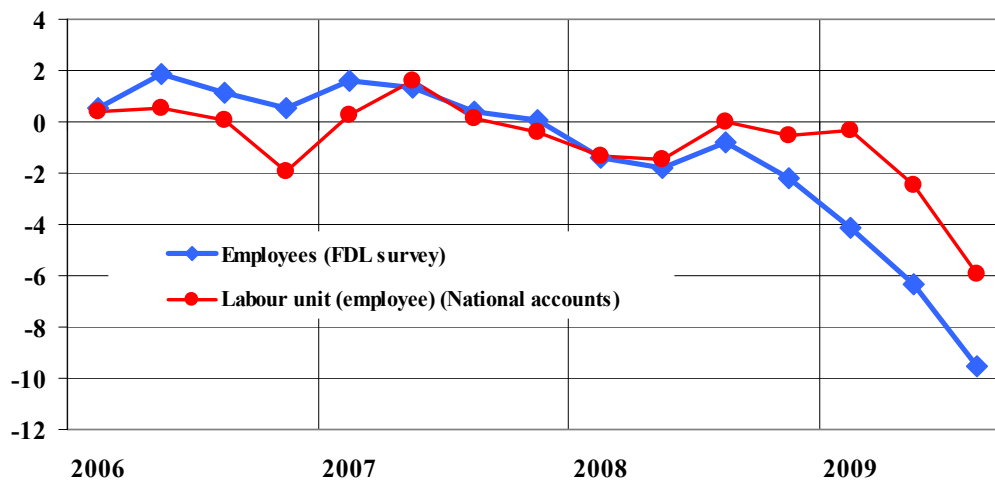


Source: Ref computation on ISTAT data

One direct consequence of this phenomenon is the gap that was created between demand for labour measured in labour units (i.e. in terms of full time worker equivalents) and on the basis of the number of people employed.

Graph 3

Employment evolutions: a comparison between different statistical sources

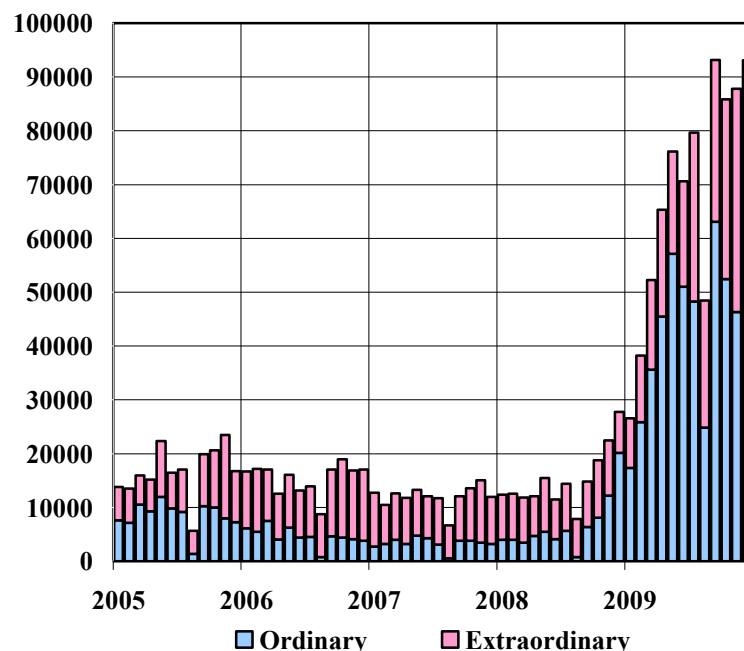


Source: Computation on ISTAT data (Labour Force Survey and National Accounts)

More specifically, the fact that workers placed in CIG are still officially employed means that the ISTAT survey data on the labour force (which measures employment on a per capita basis) have not yet recorded particularly large falls in employment, especially for regular employees. It can in fact be seen from the data available for 2009, that the contraction in employment has mainly affected workers on temporary contracts (most of whom have not had their contracts renewed), while permanent employees do not seem to have suffered severe job losses, because they have been protected by the mechanisms that have already been discussed. The number of workers on regular employment contracts fell in 2009 on aggregate by 1 percent, the result of what is stability in regular employees on permanent contracts (+0 percent) and a sharp fall in those on temporary contracts (-7.3 percent). It therefore follows that the fall in employment levels in Italy was concentrated in 2009 above all on the weaker groups on the labour market and that is on those workers termed “atypical” (regular employees on temporary contracts, other temporary contract workers, “co-ordinated and continuous” associate workers), the majority of whom were not covered by the extension of the unemployment benefit measures implemented by government and who consist primarily of the younger age groups.

Moreover, the general situation on the labour market is worsening progressively as time goes on, as it gradually adjusts to the lower levels of output. The first data released at the end of 2009 are not encouraging, considering that the use of CIG schemes remained at very high levels. Additionally, a worrying trend was observed, consisting of an increasing proportion of the use of extraordinary CIGS as opposed to ordinary CIGO schemes. The extraordinary CIGS schemes are generally associated with situations where companies are in dire trouble and they are followed by permanent job losses with effects which will tend to manifest during 2010. There is therefore a legitimate fear that 2010 will not be a year of recovery for the Italian labour market, but rather a year of weak conditions on the labour market with further falls in employment levels.

Graph 4
Hours of CIG authorised in industry
thousands of hours



Source: Ref computation on INPS data

2.-The crisis has not hit everybody to the same extent.

This section contains an analysis of the impacts on the labour market in terms of changes in the probabilities of persons changing status (employed, unemployed, etc.). **Transition matrices** were used to achieve this. Transition matrices are analytical tools used here to compare the working age population surveyed in one year with that of the preceding year. The matrices were constructed on a longitudinal panel, which includes those individuals who participated in the ISTAT survey in the same quarter in two consecutive years. The survey of the labour force conducted by ISTAT was in fact designed so that each household in the sample followed a rotating programme for the following interviews. Therefore at an interval of one year there is always a section of the sample for a given quarter which is interviewed on both occasions.

The analysis was based on the construction of matrices which compared the condition of the individuals observed in two consecutive years. The objective was

to understand the frequency with which changes from one condition to another occurred. If an individual is observed to remain in the same condition in the second year as in the first year, then the condition is termed permanence, otherwise the exit from one condition and the entrance at the same time to another condition is observed. The turnover frequency, which is the sum of the rates of exit from one condition to another, other than that of the starting condition, is given by the rate of change.

The analyses described here considered the second quarter of 2009, which is compared with the second quarter of 2008. Furthermore, since the rates of permanence, exit, entrance and change, taken alone, are not very informative (although they are when compared to the corresponding rates for other periods), the transitions which occurred between 2007 and 2008 were also analysed (again for the second quarter). One caveat must be mentioned, which is that the transition matrices compare two conditions observed at two different times and they can tell us nothing about the changes that may have occurred in the interval between those two times. In other words, if a person is employed at time t_0 and also at time t_1 (and therefore according to our analysis, they have remained in the same state), it cannot be said that the person has not changed condition more than once in that interval (e.g. changing to unemployment and then to inactivity) to then return to employment at the end of the period. In other words the frequency of the changes could be much higher than those resulting from the analysis performed using transition matrices.

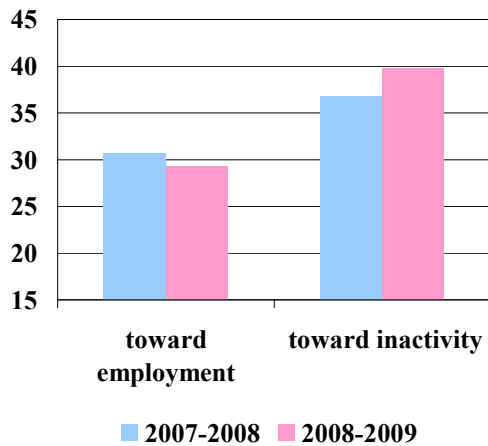
3. Transition matrices confirm that labour market conditions are worsening.

A *tout court* comparison between the changes observed in the period 2007-2008 and those seen between 2008-2009 confirms the deterioration of the Italian labour market. Although the permanence rates for employed persons do not seem to have changed significantly, a change was observed in the flow of exits for the unemployed: there was a decrease in exits towards employment and an increase in

those towards inactivity. On the other hand exits for the inactive decreased both towards employment and towards unemployment and permanence in this condition increased, a sign of discouragement from entering the labour market considering the growing difficulties in finding jobs.

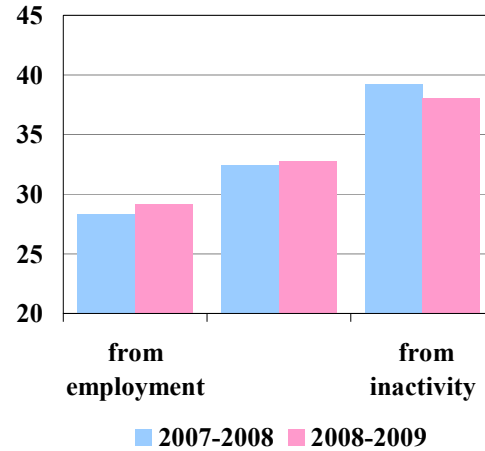
A more detailed examination shows that it was above all the rates of exit from employment towards inactivity those most involved in the labour market which increased, i.e. those inactive persons who declare that they are seeking jobs or are available (who are not considered unemployed merely because they have not performed any job seeking activity in the month prior to the interview or because they are not immediately available to start a new job). These are inactive persons who have not abandoned the labour market for good, but who are at risk of becoming discouraged if difficulties increase. An examination of entrance rates on the other hand shows that it is more probable, compared to observations made in 2008, that those who were employed, were also employed a year before. In other words mobility towards employment from other conditions has reduced. However, the probability that those who were unemployed in the same period were employed a year before (a definitely unfavourable transition) increased. The same thing was found for the inactive more attached to the labour market (those in search of a job or available for work), for whom entrances from unemployment increased. Finally, it was found that entrances increased among students by persons who were in search of a first job or inactive in search of a job a year before. Young people encounter greater difficulties than in the recent past in finding employment and among these the percentage is growing of those who decide to continue with their education in the hope of better times in future and in order to increase their employment opportunities.

Graph 5
Exit from unemployment



% of unemployed in t0 who have a different status in t1.

Graph 6
Entry into unemployment



% of unemployed in t1, on the basis of the status in t0.

Source: Ref computations on ISTAT microdata.

4.- Young people are hit hardest

If an analysis is performed by age groups it is in fact the younger generations in which those entering the labour market are found who are hardest hit. They are often concentrated in the most flexible and insecure segment of the market. The older generations, however, are only marginally affected.

The probability of exiting unemployment into employment is very low for the youngest group (between 15 and 24¹⁰), while entrances to inactivity increased. In other words it is more difficult for young people to find a job and partly as a consequence, discouragement and exit from the labour market increased. Similar trends were also observed for the 25-34 age group; there was also a fall in permanence in employment. For the older age group (35-64 years of age), however, exits from unemployment to employment increased, even if the most frequent destination remained that of inactivity.

¹⁰ The standard age intervals used by ISTAT were used for the analysis.

Table 1

Exit rates from unemployment by age groups

	Destination		
	<i>Employment</i>	<i>Unemployment</i>	<i>Inactivity</i>
15-24 years			
2007/08	36,7	28,4	35,0
2008/09	30,5	30,3	39,2
25-34 years			
2007/08	31,8	35,2	33,0
2008/09	32,2	31,6	36,2
35-64 years			
2007/08	25,6	33,4	41,0
2008/09	27,0	31,1	41,9

Ref. computations on ISTAT microdata

If the condition of origin for those in employment is considered, as was found for all age groups, it was more probable in 2009 that an employed person was also employed the year before (i.e. the rate of permanence increased), as compared to the data for 2008. In other words it is more difficult for a non employed person (unemployed or inactive) to enter employment compared to the year before and this was particularly true for the youngest. The rate of entrance to employment from unemployment for the 15-24 age group fell from 9.9 percent to 7.9 percent and entrances from inactivity fell from 20.4 percent to 19.5 percent. It was above all the rate of entrance from inactivity that fell for the 25-34 age group (from 5.1 percent to 4.4 percent).

Table 2
Entry rates into unemployment by age groups

Provenance			
	<i>Employment</i>	<i>Unemployment</i>	<i>Inactivity</i>
15-24 years			
2007/08	69,7	9,9	20,4
2008/09	72,6	7,9	19,5
25-34 years			
2007/08	91,8	3,1	5,1
2008/09	92,6	3,0	4,4
35-64 years			
2007/08	96,0	1,1	2,9
2008/09	96,0	1,4	2,6

Ref. computations on ISTAT microdata

Further confirmation that young people, or in any event those seeking their first job, were particularly hit by the crisis is given by an analysis by type of employment contract. The Italian labour market experienced a growing diffusion of different forms of contract in the middle of the 1990s other than permanent regular employee contracts which used to constitute almost all regular employee employment. The growing flexibility which distinguished these types of contract allowed growth in employment in Italy which lasted over a decade and it was achieved even in periods of modest economic growth. On the other hand, however, the spread of these forms of contract had the effect of splitting the Italian labour market into two segments: one which is protected and rather rigid, to which it is difficult to gain access and one to which access is easier, characterised not only by flexibility, but also, in a growing number of situations, by the insecurity of the employment.

It is fairly normal for these types of contract to be more common among young people, if it is considered that the reason they were introduced was to facilitate entrance to the labour market. Since it was precisely these categories of employed

persons who were most affected by the crisis, because businesses chose not to renew expiring contracts in order to address the fall in levels of activity, while they reduced the numbers of permanent employees less, it is easy to understand that the negative effects seem to be concentrated above all on the younger generations who are finding it difficult to enter the labour market or to remain in it.

However, no changes in the rates of permanence in temporary work were recorded for the youngest age group (15-24), but there was a considerable reduction in the probability of moving to permanent regular employee (from 24.7 percent to 19.1 percent) or self-employed status. However, exits towards unemployment and inactivity increased. In other words, while previously it was more probable that a young person whose temporary contract was expiring would be recruited with a permanent contract, now the situation has reversed, since it is much more probable they will enter the ranks of the unemployed when their contract expires. For the slightly older age group (25-34) there was also a fall in the change from temporary employment to permanent employment, while there was greater permanence in temporary employment or greater exits toward inactivity. A fall in the rate of change to self-employed work was also found, which in the past had played an attenuating role. These difficulties do not seem to be shared, however, by older workers in temporary jobs.

Table 3
Exit rates from temporary employment by age groups

	Destination				
	<i>Permanent dep.employment</i>	<i>Temporary dep.employment</i>	<i>Self employment</i>	<i>Unemployment</i>	<i>Inactivity</i>
15-24 years					
2007/08	24,7	50,0	2,9	8,8	13,6
2008/09	19,1	50,0	2,7	10,8	17,4
25-34 years					
2007/08	29,9	45,5	8,1	8,2	8,3
2008/09	25,6	49,7	4,2	7,7	12,9
35-64 years					
2007/08	24,6	53,4	2,8	6,0	13,2
2008/09	27,1	50,9	2,2	6,7	13,1

Ref. computations on Istat microdata

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Flexicurity is the cornerstone of efficient labour markets¹¹

Marta Romero (AGETT)
Juan José Méndez (CEPREDE)

New trends are exactly that, “trends”, but they bring experiences and new practices, with the intention of not repeating previous actions which have not produced good results or which no longer correspond to current needs.

This message, which can be applied generally, is also relevant to the labour market in particular. The new term “flexicurity”, which results from combining the concepts of flexibility and security, describes the new common European model applied to the labour market which inspires the guidelines of the European Employment Strategy.

The circumstances of the labour market show ample scope for improvement. The Lisbon goals in the labour field are challenges that must be met. At present, there is a very marked dichotomy of contracts, absenteeism is very high and the employability of certain groups (youth, women and over-55s) is low. To summarise, the current situation increases the real cost of labour, increases costs for society as a whole and reduces - or hinders increases in - the employment rate.

Hence, a model gaining ground throughout Europe combines organisational flexibility with worker security, in reasonable proportions, and with proactive employment policies (lifelong training and job-seeking) implemented by both public sector entities and private employment agencies (or temporary agencies work –TAWs- in Spain), which have an adequate infrastructure.

1.-What we mean by Flexicurity.

When we speak of flexicurity, we refer to a high degree of flexibility, stemming from greater ease in hiring and less rigidity in dismissals, with a similarly high level of social

¹¹ * Text of the original document titled “Labour Flexicurity in Spain. Security with flexibility for a more modern, competitive and efficient labour market” prepared by AGETT and CEPREDE, June 2009.

protection via generous unemployment benefits, though subject to active job-seeking and a proactive attitude to the placement of the unemployed.

This model predominates in the Nordic countries, with the Danish labour market in particular seen as an example to follow.

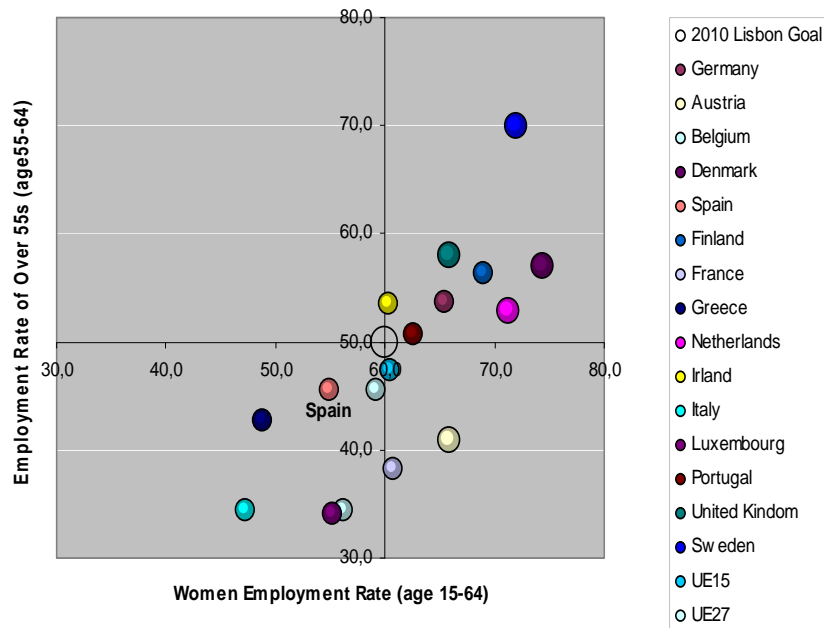
Since the Lisbon Agenda was agreed, the innovation plans supervised by the European Commission have sought to put Europe in a position of leadership in markets and in business. **Labour flexicurity is included in the Europe of Innovation in the wider sense**, i.e. Europe as a leader can only be understood in terms of a high level of leadership in all aspects, among which training and the labour market stand out, as does their harmonisation. In 2008, there were six EU15 economies that already fulfilled the three objectives of the Lisbon Agenda. They are followed, in order of compliance, by three countries that fulfil two objectives and France, which fulfils one. Bringing up the rear are five economies that do not fulfil any of the Lisbon Agenda targets (Belgium, Spain, Greece, Italy and Luxembourg).

The aim is that the whole EU should speak the same labour language, though bearing in mind that recipes cannot be generalised. The objective is for all EU countries to follow the leading countries in converging toward the same set of standards, which bring together greater competitiveness, stable employment and a sustainable high rate of unemployment.

These three EU objectives were amply exceeded by the United States in 2006, with a 72% employment rate, a 66% female employment rate, and a 62% employment rate among the over-55s.

Why do changing times oblige us to speak of Flexicurity? Because we aspire to greater homogeneity, in general, and therefore less differentiation, among European labour systems with regard to the “euroconcept” which summarises the type of leadership sought, flexicurity. Variability is especially notable in three groups: youth, women and workers over 55.

Graph 1.



Faced with these challenges, therefore, conditions demand harmonisation and a common model that will set us on the right course.

The next section looks at the quantitative progress made in the measurement of flexicurity internationally and then the following section develops the **AGETT-CEPREDE Flexicurity Indicator (IFX) for the autonomous regions in the period 2005 – 2008.**

The IFX (the core indicator of flexicurity) permits a key analysis of the strengths and weaknesses of the labour system in the wider sense and shows the strength of each indicator with respect to the whole.

It is nothing new to consider that the effects of labour reforms differ from one region to another, due to the different relative weights of economic sectors, the distribution of employment, educational levels, demographic pyramids, etc. Hence, regional governments can be expected to lay emphasis on complementing the weaknesses and taking advantage of the strengths of their community with respect to the national average. **Improved levels of regional employment will translate into a higher level of total employment.**

2. International measurements of labour markets: why Flexicurity in the 21st century?

The labour markets currently considered the most efficient in the world are those of the United States, Singapore, Switzerland, Hong Kong SAR and Denmark, the majority of which have high rates of employment.

It would appear that the way of catching up with this group of leaders in efficient markets is to adapt some of the policies that contribute to their leadership, especially if they make it possible to reach higher and more stable employment rates, to realise the potential of resources, to enjoy a more efficient economy and to strengthen the European criterion of flexicurity.

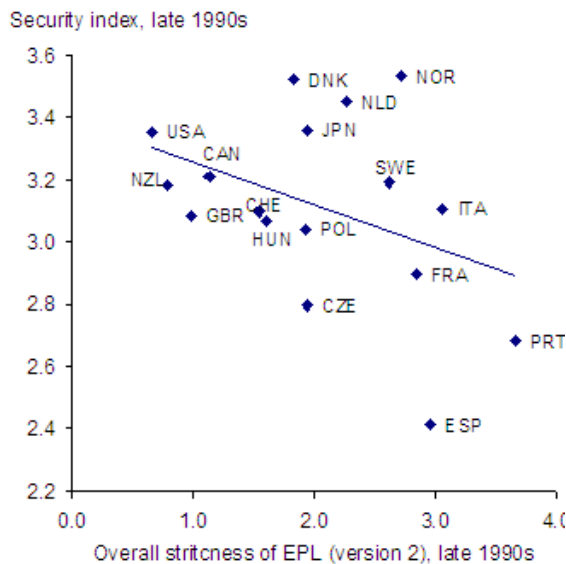
Among the most relevant international measurements of labour markets, we could highlight the *Global Competitiveness Report* of the World Economic Forum (WEF) 2008-2009. This annual report considers twelve pillars of competitiveness, and the seventh, within the ‘Efficiency enhancers’ (between the ‘Basic requirements’ and ‘Innovation and sophistication factors’) is the pillar of labour market efficiency. Within this pillar are 10 indicators, 6 measured by surveys: Brain drain, Reliance on professional management, Hiring and firing practices, Pay and productivity, Flexibility of wage determination and Cooperation in labour-employer relations. The other four are hard data measures: Female participation in labour force, Firing costs, Rigidity of employment, and Non-wage labour costs.

A second global reference is the 2009 report *Doing Business* published by the World Bank and the International Finance Corporation. The third of the ten components considered (with a total of 39 indicators) is “Employing workers”, based on five indicators: Rigidity of employment, Rigidity of hours, Difficulty of firing, Difficulty of hiring, and Firing cost.

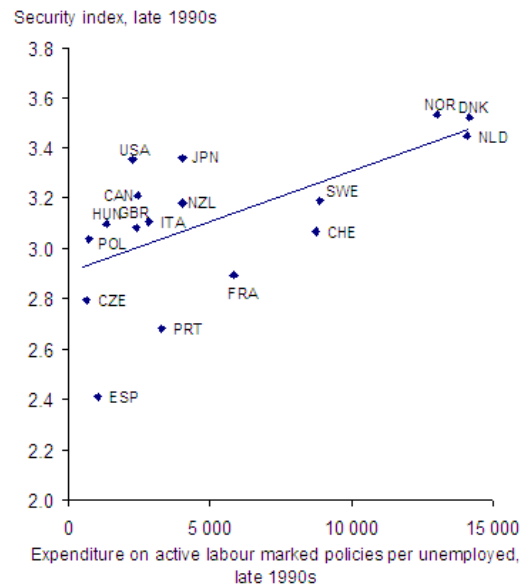
A third reference in the European context is the OECD ranking (OECD, 2004). This is a synthetic indicator which summarises the Strictness of Employment Protection Legislation (EPL).

The following conclusions have been extracted from scatter charts [There are three charts in the full version online of the original document]: unemployment benefits provide security to workers, while employment protection legislation plays in the opposite direction. And, the active labour market policies enhance the perception of job security.

Graph 2.



Graph 3.



The term used by the OECD refers exclusively to the rigour of employment protection legislation, but flexicurity takes a broader view of labour relations. It is a question of reconciling flexibility for companies in hiring and firing with the development of new professional competencies for workers and the modernisation of social protection systems.

The study by Andersen, T.M. and Svarer, M. (2007) reaches the same conclusion, using OECD data.

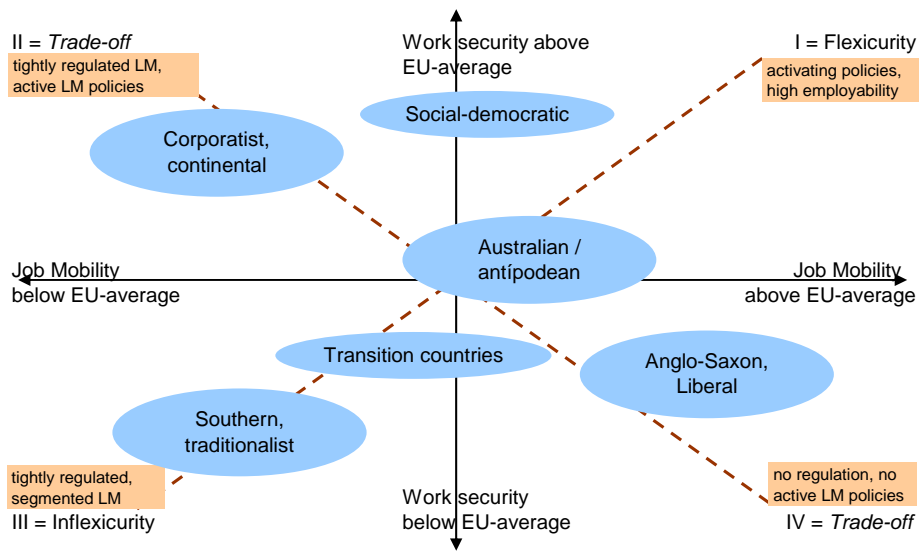
The flexicurity model points in the opposite direction: moderate job protection legislation and higher levels of unemployment benefits, with conditions as to duration and degree of support, supported by strong proactive employment policies.

In this sense, the **International Labour Organisation (ILO)** states, in its Employment Working Paper No. 15 “*Are there optimal global configurations of labour market flexibility and security?*” (2008), that flexicurity is a combination of flexibility and security. The origin of the term is closely associated with the Danish model, which combines high levels of subsidy with low levels of protection against dismissal, i.e. low job protection and high unemployment benefits. This is the most controversial point and the subject of debate between different social and political tendencies.

Bekker, S. and Wilthagen, T., **Tilburg University** researchers, in their article “*Europe’s Pathways to Flexicurity: Lessons Presented from and to the Netherlands*”, in the April 2008 issue of the journal *Intereconomics*, reflect the view that the term “security” is better represented in the employability of the worker in case of dismissal. The authors therefore favour lifelong training and consider that the European Commission’s flexicurity model cannot be implemented directly in each member state, but should rather be adapted to each national context with an appropriate combination of instruments.

In various seminars, Tilburg University has developed policy indicators for the flexicurity process based on quadrants determined by ten indicators, reflecting the trade-off between security and flexibility.

Figure 1.

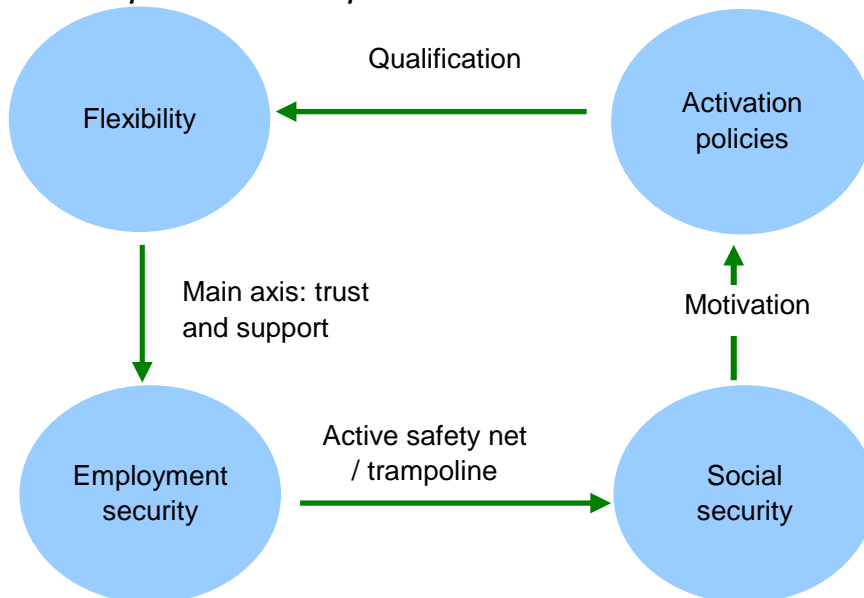


Note: LM is abbreviation of Labour Market.

Among the alternatives which have been debated in the European Union in recent years, Wilthagen has developed a revised version of the Danish scheme to make it easier to implement (with a smaller element of insecurity or loss of confidence) by member states, moving to an ‘employability square’ rather than a triangle.

Figure 2.

Silver Square or Trust Square



The **ETUC (European Trades Union Confederation, 2004)** also takes comfort from this. In its resolution on the Lisbon targets, it asks the European Commission and

European Council for lifelong training, proactive policies and support systems for job seekers, among other measures. This organisation defines the flexicurity model as a “solid and safe, but flexible” social and economic model.

During the 8th European Regional Meeting of the **International Labour Organisation** (ILO, February 2009), a note on flexicurity was presented, which referred to the “sensible equilibrium” between the two concepts. It reaffirmed the idea of adapting the model to the specific conditions of each country and, above all, that “flexicurity needs, and also promotes, higher rates of employment”. The document highlights some key ILO norms related to flexicurity, including the **Private Employment Agencies Convention**, 1997 (N° 181), which defines the concept of “Private Employment Agencies”, and the activities they can undertake. The Convention establishes that all members shall “formulate, establish and periodically review conditions to promote cooperation between the public employment service and private employment agencies”. Spain ratified this convention on 15th June 1999, but there has been no progress in this respect.

The **European Commission** itself has created an **Expert Group on Flexicurity**, which issued a report, “*Pathways to Flexicurity*”, in June 2007. In this document, flexicurity is defined as a “policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labour markets, work organisations and employment relations on the one hand, and security - employment security and social security - on the other”. It explains that flexibility is understood as the transitions throughout a working life, i.e. from entry into the labour market at the end of the educational stage, from one job to another, from unemployment or inactivity to work and from work to retirement. It clarifies that it is not limited to greater freedom for companies to hire or fire and nor does it imply that permanent contracts have become obsolete. It refers to the transition of workers to better jobs (upward mobility). With regard to security, it not only mentions the question of keeping a job, but also security in the network of transitions to and from work. This would be achieved by improving workers’ capabilities, through training – especially for older and less qualified workers - and help to find a new job. This is complemented with adequate unemployment benefits to ease such transitions.

In reply to and support of this initiative by the European Commission, the **European association of Private Employment Agencies (EuroCiett)**, together with **UNI-Europa, the confederation of European trades unions**, issued a joint declaration, on 28th February 2007, to contribute to the debate on flexicurity. In particular, they argue that the restrictions or bans on the use of temporary job agencies should be reviewed regularly, eliminating those that are not justified, objective or proportional. This is based on these companies' various contributions to the labour market in general, and to flexicurity specifically. In particular, they maintain that temporary job agencies can help to build bridges between employment and unemployment, to ease the transition from study to work, to smooth transitions in the labour market, promote the conversion between different types of labour contract and improve the work-life balance.

Public employment services also have an important part to play in this new integrated labour market model. The **European network of Heads of Public Employment Services (PES)** has signed a joint declaration during the 23rd meeting of the European Heads of Public Employment Services (PES) in Nice, on 11th December 2008. This declaration lists various reasons for which the PES promote flexicurity in the labour market, such as that the PES improve the transparency of the labour market, provide a rapid and personalised mediation between the different participants in the labour market, assist in job seeking, provide appropriate services to companies, quality-focussed and customer-oriented, and provide services to groups which have difficulty accessing the labour market, among other things. Nevertheless, it states that it is not only the PES that can contribute to the social inclusion of target groups through the labour market, but there is an important role for associations with a structure and close knowledge of these groups, such as non-governmental organisations, local authorities, private employment services and training companies. **Efficient collaboration between all these agents is the key to creating effective back-to-work programs.**

Although the use of terms such as “normal employment” and “atypical employment” generate controversy (see Keller, B and Seifert, H, 2005 or Tangian, A.S. 2004), the above approach reduces the points of disagreement between economic agents.

The latter author, **Tangian, A.S.**, published at least four articles on this issue between 2004 and 2008.

Illustrating the changes in his approach, in 2004 he developed an index of flexicurity for European countries (*Flexicurity Index of European Countries*) and, based on OECD work (1999-2002) and on Wilthagen's definition (2001), he defines flexicurity as "...the employment and social security of atypically employed, that is, other than permanent full-time...". In this way, he develops a panel data model with eight employment categories grouped into only three, weighted according to level of security (normal security, flexicurity and all-security), six legal criteria, sixteen countries and over a fourteen-year period.

In this document, the atypical is the flexible, and is composed of the incidences of temporary work and part-time work, contrasted with the typical or normal security, which is composed of full-time permanent contracts.

Table 1.
Tangian's Flexicurity Model for European Countries (2004)

		1990	1999	2000	2001	2002	2003	Order
Germany	% Normal Security	66,5	67,0	67,1	67,1	67,2	67,2	6
	% Global Security	61,3	60,4	60,3	60,3	60,3		7
	% of Flexicurity	49,5	60,4	60,3	60,3	60,3		8
Denmark	% Normal Security	66,2	66,2	66,2	66,2	66,2	66,2	8
	% Global Security	61,1	61,0	60,9	61,1	61,0	60,7	6
	% of Flexicurity	53,2	51,5	51,3	50,6	50,4	50,1	6
Spain	% Normal Security	61,6	55,3	54,7	54,0	53,3	52,6	15
	% Global Security	49,7	47,3	47,4	46,9	46,8	46,6	15
	% of Flexicurity	36,2	38,8	39,3	39,0	39,3	39,5	11
France	% Normal Security	60,3	60,3	60,3	60,3	60,3	60,3	13
	% Global Security	54,2	55,4	55,8	56,0	56,1	55,8	11
	% of Flexicurity	40,4	46,6	47,7	48,0	47,9	46,9	9
Italy	% Normal Security	76,1	76,1	76,1	76,1	76,1	76,1	2
	% Global Security	61,3	61,0	61,0	61,2	61,4	61,4	4
	% of Flexicurity	28,2	34,6	35,4	35,7	35,9	35,6	12
Netherlands	% Normal Security	75,3	75,3	75,3	75,3	75,3	75,3	3
	% Global Security	69,2	68,8	68,7	68,3	68,3		2
	% of Flexicurity	60,6	62,1	62,5	62,1	62,4		2
United Kingdom	% Normal Security	46,8	46,8	46,8	46,8	46,8	46,8	16
	% Global Security	42,0	42,1	42,2	42,2	42,2	42,0	16
	% of Flexicurity	32,9	34,1	34,2	34,3	34,1	34,0	14

Tangian (2006) illustrates clearly the *trade-off* of flexicurity using matrices and considers the rigidity of job protection legislation as the opposite of flexibility. The models he develops lead to the conclusion that it would be more convenient to think of *flexinsurance* rather than *flexicurity*. In this sense, the author suggests that one way of softening the *trade-off* or conflict of flexicurity is to consider a flexibility sufficiently protected by unemployment insurance and by employer social security contributions which are higher than would be the case for a permanent contract, as a contract with a higher degree of flexibility should be considered less favourable for the worker and should therefore be offset by better insurance.

The following year (Tangian, 2007), flexibility and insecurity continue to be conflicting concepts. Finally, in 2008 (Tangian, 2008), he confirms his position on *flexinsurance*, considering that his indicator (calculated from 15 subindicators) does not validate the European Commission's approach. His proposal was to implement flexicurity with higher unemployment insurance and social security contributions, in proportion to the flexibility of the contract, similar to the Austrian system or the US 'experience rating'. As a second proposal, there also appears a workplace tax, i.e. a tax on companies which offer work in substandard or 'bad' conditions. It is comparable to an ecological tax to protect the environment. Part of the tax would be paid to the worker as a bonus to compensate the 'bad' conditions of the contract and the rest to the state for its supervisory role.

The **President of the Government's Economic Report** (*Informe Económico del Presidente del Gobierno*) for 2008, emphasising the work training sphere, provides in Chapter 3 ("Human and Technological Capital") a good summary of the situation of professional training in Spain. The **OECD**, on the other hand, in its report "*España debe hacer más para los jóvenes y el trabajo*" ("Spain must do more for youth and work", 2007) offers several recommendations for improving the situation of young workers, the most relevant being: ensure that training is available in companies for all students in vocational training; achieve a greater convergence between temporary and permanent contracts; increase the probation period for permanent contracts; and ensure that effective employment services are provided for unemployed youths as early as possible.

Lastly, in the national sphere, use has been made of the **Bank of Spain** Banco de España, November 2007) study on this subject, as part of the search for indicators to use in the preparation of the Flexicurity indicator (IFX) at regional level.

This report refers to the disparities between EU labour markets with regard to youth (15-24 years) unemployment rates, with standard deviations of 13.5 points. Like other authors, it defines a set of eight indicators grouped into four models (Nordic, Anglo-Saxon, continental and Mediterranean).

The eight indicators, used at national level for the period 1980-2003, are: unemployment protection, unemployment benefits, proactive employment policies, lifelong training, product market regulation, the tax wedge on labour, level of unionisation, and coordination of collective bargaining.

The flexicurity index takes Denmark as a benchmark, measuring the distance in flexicurity terms (deviations) from the Danish reference.

One of the key conclusions is the use of a panel data model with a R2 of 0.44 in the global model to explain that “the evidence obtained confirms the virtues of the Danish flexicurity model, as the indicator developed here has a positive impact on the employment levels of all the groups considered,...”.

Although there are some restrictions and simplifications which, of course, the authors themselves explain, the index does capture in approximate terms the distance of labour markets from the Danish case. Among the most important restrictions we can mention four: data are only available up to 2003 as in the OECD source; updating them presents many difficulties; the results are static: they do not take account of the dynamic situation in each country as they simply measure the distance from the leader; and all indicators have the expected sign except the coordination of collective negotiation, which has the opposite sign (+).

Table 2.
Flexicurity model of Banco de España

Flexicurity based on the analysis of Banco de España.
Data refers to 2003.

Countries	Distance from Denmark = 0	Order
Denmark	0	1
Netherlands	-0,4	2
Ireland	-0,8	3
Belgium	-1	4
Sweden	-1,4	5
Austria	-1,4	6
Finland	-1,5	7
United Kingdom	-1,5	8
Italy	-1,6	9
Germany	-1,7	10
France	-1,8	11
Portugal	-2	12
Spain	-2,2	13
Greece	-2,9	14

Source: Banco de España.

Finally, the “**AGETT-CEPREDE Flexicurity Indicator**” (IFX) is an indicator that aggregates twelve partial indicators which focus on the concepts of employability, adaptability to the market, professional training and lifelong training. This indicator permits a key analysis of the strengths and weaknesses of the labour system in the broad sense and shows the intensity of each indicator with respect to the whole.

Table 3.
Flexicurity Composition (IFX) and relevance for each variable
in the employability objective (Employment Rate)

Indicator Code	Indicator Description	Ranking according to the relative importance of the employability objective (employment rate)
FNO	Education (level) of the Employed Population (since secondary education % / total)	1
TEJ	Employment Rate of Under 25 years	2
DLD*	Long Term Unemployment / Total Unemployed Population (% of unemployment longer than one year / Total)*	3
TBE	Time Spent Seeking Work (% of population finding a job between 0-6 months / total unemployed population)	4
TCP	Self-employed Workers / Workers (%)	5
BDP	Unemployed receiving unemployment benefits (% / unemployed population)	6
PAP	Market Share of Private Employment Agencies (%)	7
TTP	Part-time Workers / Employed population (%)	8
PSD	Direct Social Benefits (Contribution / Salary, %)	9
FPC	Professional Training (Contribution / Salary, %)	10
DNF*	Unemployed Population by Educational Level (since secondary education % / Total unemployed population) *	11
PEP*	Work-related Sickness Report (ratio % employees)*	12

Source: AGETT

* Those indicators are included inside the model by its complementary figure for making higher indicator values correspond to higher Flexicurity Levels.

The IFX reading for Spain was 58.5 points in 2008 (out of a maximum 100), **distant from the optimum which would be above 70 points**. Among the autonomous regions, **there are only 7.8 points of difference between the most flexicure region (Navarra) and the least flexicure (Canarias)**. By way of comparison, during the same period, the difference in employment rates was 13.6 percentage points, from 59.0% in Madrid to 45.4% in Extremadura.

The growth of flexicurity in Spain was 1.2% per annum on average over the period 2005-2008. By autonomous region, four quadrants can be defined as follows:

- ***Static or position leaders***: regions with flexicurity levels above the national average, but with below average growth. These regions are **Cataluña, Comunidad**

Valenciana, La Rioja and Murcia. Also the **Baleares and Aragón**, though these regions have negative growth rates.

- **Consolidation leaders:** they combine high flexicurity levels with above average growth in the indicator. This group is comprised of the regions of **Navarra, País Vasco, Cantabria and Madrid**, with growth rates in the indicator clearly above the national average in the first three cases.

- **Converging regions:** those that need to improve, not only in growth rates, but also in the level of flexicurity. These regions are **Castilla-La Mancha, Castilla y León, Andalucía, Extremadura, Galicia and Asturias.**

- **Non-converging regions:** those where the level and growth of the indicator are below the national average. Only one region is in this situation: **Canarias.**

Spain is advancing up the IFX index, seeking intelligent harmonisation of the labour market, and catching up with the European leaders. Among the regions, there are six indicators which are less homogeneous. In particular, these are the participation of private employment agencies (in Spain these are temporary employment agencies or temporary agencies work - TAWs), educational level of the unemployed, time spent finding a job, long-term unemployment, percentage of unemployed who receive benefits and the number of work-related sickness reports.

During the period studied, 2005-2008 (especially favourable for employment in nearly every quarter), and in all autonomous regions and economic sectors, **the employment rate increased from 52.1% to 53.0%, an average annual increase of 0.6%. In the same period, the IFX rose from 56.4 points to 58.5, an average annual increase of 1.2%.**

Flexicurity requires, and also promotes, higher employment rates. In particular, **flexicurity improvements account for 0.2 percentage points of the higher level of employment.** However, this progress is not homogenous, i.e. it does not occur equally in all the indicators nor in all the regions

In general, of the partial indicators that make up the AGETT-CEPREDE Flexicurity Indicator, **progressive improvement is shown** by those for Professional Training, Educational Level of the Employed, Time spent seeking Work, Long-term Unemployment and Unemployed by Educational Level.

Other indicators, such as Youth Employment Rate and Market Share of Private Employment Agencies (TAWs in Spain) in mediation, **show no clear improvement**, and still have a long way to go. This is especially true when the labour market turns down, because the agencies' activity is adversely affected and their contribution is reduced.

In the last two quarters of 2008, flexicurity has reduced in Spain's autonomous regions, due principally to **four important changes**: (a) the incidence of work-related sickness reports has increased, (b) the youth employment rate has fallen, (c) the percentage of unemployed receiving unemployment benefits has declined, (d) there has been a decline in the participation of private employment agencies (TAWs in Spain) in hiring and employment mediation.

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