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COMMISSION COMMUNICATION “TOWARDS COMMON PRINCIPLES OF FLEXICURITY”**Summary**

Europe is faced with an urgent need to improve the adaptability of companies and workers in order to successfully address the challenges of globalisation, rapid technological developments and population ageing. The ability to manage change requires modern and dynamic labour markets which are flexible while at the same time providing new forms of security for workers. **BUSINESSEUROPE** therefore supports EU actions to promote flexicurity in order to correct structural weaknesses on Europe's labour markets.

Flexicurity is about facilitating the creation of new jobs as opposed to trying to preserve existing ones, and supporting companies and workers' efforts to adapt to market changes. Rather than imposing restrictions on possibilities to terminate individual employment contracts, or introducing restrictions on the use of flexible forms of work, flexicurity implies removing the obstacles to creating new jobs while equipping workers to grasp new employment opportunities and maximise their chances on the labour market.

Therefore, flexicurity should consist of the following policy components: flexible and reliable contractual arrangements, accessible and high-quality lifelong learning, effective active labour market policies and employment-friendly social security systems. In order to yield maximum results, the four policy components must be implemented in an integrated way. However, depending on the national context and traditions, the detailed ingredients of the flexicurity policy mix will vary from country to country. There is no one-size-fits-all model of flexicurity to be replicated across the EU.

The competence to design and implement flexicurity policies lies first and foremost with the Member States. Most of the measures will therefore need to be taken there. The role of the EU should be to provide a framework to facilitate member states' reform efforts. In this respect, **BUSINESSEUROPE** supports the approach taken by the Commission, i.e. establish common principles that are set at a sufficiently high level to be relevant to all, without prescribing the specific route that should be taken. In addition, the EU should organise exchanges of best practices and monitor national reforms using the instruments of the European growth and jobs strategy.

Social partners at all levels have a crucial role to play in developing flexicurity. The European social partners have undertaken a joint analysis of the key challenges facing European labour markets in which they have agreed on a common description of the key components of and joint recommendations for a genuine flexicurity approach. The joint labour market analysis represents the main contribution of the European social partners to the European Council in December 2007 which should adopt a set of common principles on flexicurity.



I. Introduction

1. On 27 June 2007, the European Commission adopted a Communication entitled "Towards common principles of flexicurity: More and better jobs through flexibility and security".
2. The aim of the Communication is to facilitate the debate on flexicurity with a view of adoption by the European Council in December 2007 of a set of common principles of flexicurity. While acknowledging that there is no one-size-fits-all approach, the common principles should help EU Member States, which face the common challenge of adapting to globalisation and ageing, to modernise their labour markets.

II. General comments

3. European companies are operating in an international economic environment in which competition gets tougher by the day and changes are occurring at a rapid pace. The ability to adapt and manage change will become ever more important for European economies and companies to foster growth and create jobs.
4. Confronted with the challenges of globalisation, rapid technological developments and demographic ageing, European social models need to adapt and modernise in order to boost employment and productivity. Structural reforms are required to increase flexibility on Europe's labour markets so as to allow companies to remain competitive and seize new market opportunities. At the same time, workers need new forms of security that promote mobility and enable them to cope with change. According to BUSINESSEUROPE, flexicurity is at the heart of efforts to restore a positive balance between competitiveness and social protection.
5. BUSINESSEUROPE therefore welcomes the Commission Communication which constitutes an important contribution to the debate on flexicurity. It explores in a balanced way the key components of flexicurity, provides a framework consisting of a set of common principles and identifies pathways which should help the EU Member States to steer their labour market reform efforts.
6. In essence, flexicurity is about moving away from a job preservation mindset into a job creation mindset. Acknowledging the changing economic and labour market situation, the Commission rightly observes that individuals increasingly need employment security rather than job security, as fewer have the same job for life. Flexible framework conditions are indispensable to achieve employment security. A recent Eurobarometer (2006) shows that a large majority of European citizens (76%) recognise that a job for life with the same employer is a thing of the past and that work contracts should become more flexible in order to encourage job creation (72%).
7. In light of the challenges and opportunities presented by globalisation and technological progress, it would be wrong to think that security stems from overly protective terms and strict obstacles to dismissing workers. In France, for



example the subjective feeling of job insecurity is strong notwithstanding a high level of employment protection legislation. By contrast, Danish employees are among those in the EU with the highest level of security despite the fact that the cost of hiring and firing is relatively low and labour market mobility is high. Employees feel secure not as a result of restrictive employment protection legislation (EPL) but because it is relatively easy to find a new job.

In other words, security in today's labour market is not so much a matter of preserving a job for life. Instead, it is about making sure that workers are empowered to grasp new employment opportunities. In this context, according to the European social partners' joint analysis of the key challenges facing European labour markets, "the priority is to review and, if necessary, adjust the role that job protection measures play in promoting productive and rewarding transitions into new or existing jobs".¹

8. The novelty of the flexicurity approach is that flexibility and security are not considered contradictory concepts, the implementation of which necessarily involves some kind of trade-off. Instead, flexibility and security are seen as mutually reinforcing, benefiting both companies and workers. Flexibility allows workers to better reconcile work and family life and is a key factor for companies' competitiveness. In addition, flexible and smoothly operating labour markets facilitate labour re-allocation to new and dynamic activities, thereby enhancing productivity and creating upward mobility for workers. At the same time, policies supporting workers' transitions on the labour market (through income security, active labour market policies and education and training) will enhance the employability of workers and improve the innovation capacity and competitiveness of firms.
9. BUSINESSEUROPE agrees with the Commission that flexicurity is a holistic and dynamic concept, consisting of the following policy components: flexible and reliable contractual arrangements, accessible and high-quality lifelong learning, effective active labour market policies (ALMP) and modern social security systems. In order to yield maximum results, the four policy components of flexicurity must be implemented in an integrated way.
10. The Commission rightly states that flexicurity policies and measures must reflect the very different national situations. European companies fully agree that there is no one-size-fits-all model of flexicurity. The flexicurity approach requires comprehensive national strategies with the right mix of economic and social measures. The ingredients of this policy mix will vary from country to country, depending on Member States' socio-economic situation, ideological and cultural preferences, their institutional framework, etc. However, in most Member States, there is a need to improve the adaptability of companies to change. Yet, according to the Joint Employment Report 2006/2007, policy implementation to improve the adaptability of workers and enterprises is lagging behind.
11. BUSINESSEUROPE therefore supports the Commission's approach of establishing a set of common principles and identifying pathways to help Member States steer labour market reform efforts. In this way,, the Commission

¹ BUSINESSEUROPE, UEAPME, CEEP and ETUC, "Joint analysis of the key challenges facing European labour markets", October 2007.



provides a useful framework and source of inspiration for Member States while leaving them the necessary policy discretion to design and implement their own flexicurity strategies, with the active involvement of social partners.

12. The Commission rightly asserts that flexicurity should be seen in a wider context. This implies pursuing sound macroeconomic policies – including sustainable public finances - and creating a business environment favourable to investment.

III. Specific comments

On the four components

13. BUSINESSEUROPE considers the four policy components identified by the Commission - flexible and reliable contractual arrangements, lifelong learning, effective active labour market policies and modern social security systems – to be the main ingredients of policies aimed at increasing flexibility and security on the labour market.

Flexible and reliable contractual arrangements

14. In today's economic environment, companies need modern labour laws that allow for flexible contractual arrangements so as to be able to adjust their workforce and work organisation rapidly and smoothly when required by market shifts, changing customer needs, technological advances and competitive pressures. This is particularly the case for young and for small companies whose capacity to grow is key for job creation. However, stringent EPL hampers the creation and growth (including employment expansion) of new businesses, decreases the speed of adjustment to shocks and, eventually, curb productivity growth. It is therefore essential that Member States review EPL under standard employment contracts in order to better balance flexibility and security. The aim should be to reduce dismissal costs incurred by companies in order to encourage them to hire new workers.
15. Strict EPL also has a negative impact on less advantaged groups in terms of entry into the labour market while increasing the average duration of unemployment spells. In order to address the phenomenon of segmented labour markets and fully exploit Europe's labour force potential, BUSINESSEUROPE urges Member States to remove unnecessary rigidities which hamper job creation.
16. In order to stimulate job creation, it is essential to have access to a variety of contractual arrangements. Part-time, fixed-term, agency work, etc. enable employers to adapt to changes and demand while allowing workers to reconcile work and family life or respond to other personal needs and preferences. Moreover, evidence shows that these flexible forms of work also constitute a stepping stone for disadvantaged groups to access the labour market.
17. In addition to strengthening external flexibility, European companies would also like to stress the need to increase internal flexibility by improving mobility within



existing employment relationships and allowing for variations in working patterns and working-time arrangements.

18. Moreover, as the Commission rightly points out, contractual arrangements also need to be reliable. In BUSINESSEUROPE's view, this requires labour legislation that provides legal certainty and is predictable. Rules and regulations such as recruitment formalities, administrative procedures and conditions for dismissals need to be employment-friendly and easy-to-understand to enhance the willingness of companies to create new jobs as early and rapidly as possible and thus to increase the opportunities for job-seekers.

Comprehensive lifelong learning strategies:

19. BUSINESSEUROPE agrees with the Commission on the crucial role of lifelong learning for the competitiveness of firms as well as for the long-term employability of individuals.
20. The Commission rightly states that the responsibility to develop and invest in lifelong learning strategies lies with all actors, i.e. public authorities, social partners, companies and individual workers. With regard to access to training, the experience of countries which instituted a right to training shows that it has little impact for the workers who are most in need: the less qualified. Legislation is not the right instrument to influence learning behaviours. In reality, personal motivation remains the most important driver for the development of lifelong learning. The key is to create the conditions that will encourage companies and individuals to invest financial resources, time and efforts to upgrade skills. The tools have to be adapted to local specificities and should be defined as close as possible to the end beneficiaries.
21. The key elements to successfully increase participation in lifelong learning are the following:
- Ensuring that education and training provision is attractive and corresponds to labour market needs,
 - Having efficient guidance services to help companies and workers identify courses or programmes which meet their needs,
 - Giving an appetite for learning to individuals from the very early stages of education and supporting them in their efforts to upgrade their skills,
 - Creating the right framework conditions to encourage companies to invest in lifelong learning,
 - Develop instruments to validate the competences acquired through informal learning such as on-the-job learning.
22. Furthermore, in a context of globalisation and technological developments, the ability to identify and anticipate the competences and qualifications needed is imperative in order for companies to remain competitive and for employees to improve their employability.



Effective active labour market policies

23. (Re-)integrating people in the labour market requires effective active labour market policies. Their aim is to spur the unemployed to look for work more actively and/or to improve their employability. ALMP have a particularly important role to play in preventing the long-term unemployed from becoming detached from the labour market by enhancing their motivation, skills and employability.
24. ALMP should be managed in a cost-effective way. In this respect, BUSINESSEUROPE fully agrees with the Commission that active labour market policies do not become more effective simply by raising total spending. It is essential to raise the quality of spending. Notwithstanding the fact that the specific challenges for ALMP can vary a lot between Member States, there is ample scope to learn from each other with a view to discussing and implementing activation measures whose success has been proven.

Modern social security systems:

25. Clearly, for activation policies to yield maximum results, it is essential to put in place modern social protection systems, in particular unemployment benefit systems which links rights and obligations for the unemployed as opposed to giving unconditional passive income support. It is important that social protection systems support a quick re-entry for the unemployed in the labour market. As the Commission rightly states, applying the right-and duty-principle should also increase the cost-effectiveness of benefit systems.
26. In addition to making the receipt of unemployment benefits conditional upon participation in activation programmes, a suitable balance must be struck to ensure that benefits do provide income security during transitions on the labour market while not discouraging work. In many Member States, however, poverty and/or unemployment traps remain a considerable obstacle for the unemployed to find work. Disincentives to work are particularly strong at the low end of the wage scale. Reducing those disincentives is essential.

On common principles and pathways

27. While most Member States confront common challenges, i.e. globalisation, rapid technological developments and population ageing, their respective labour market situation, legal systems and organisation of industrial relations are very different. As a result, there is no one single flexicurity model that can be replicated across Europe. European employers therefore support the approach taken by the Commission, i.e. establish a set of common principles of and identify pathways towards flexicurity. In this way, the Commission provides a framework for national debates and a source of inspiration to help steer national reform efforts without interfering with the competence of Member States in the areas of employment and social policy.
28. With respect to the pathways, BUSINESSEUROPE agrees with the European Expert Group on Flexicurity that these should be considered indicative. No country can fit perfectly into a specific pathway and member States can choose



from or combine them. The pathways can therefore not be considered to be a benchmark but, rather, as a helpful tool for governments and social partners when developing their own flexicurity approach.

On the financial dimension of flexicurity

29. Implementing an effective flexicurity strategy can entail considerable budgetary costs, in particular in the short term. The Commission is therefore right to recall that short-term costs should be weighed against the expected long-term benefits of flexicurity policies as manifested in high employment and low unemployment rates, increased productivity, less poverty. That being said, when developing flexicurity policies, Member States must take into account the need for sound public finances. Maximising the cost-effectiveness and impact of measures taken is essential, for example by applying the rights-and-duty principle to unemployment benefit systems.
30. For those Member States with less-developed benefit systems, the Commission suggests that the necessary resources may be found by a shifting of public resources towards enhancing flexicurity policies while distributing any additional costs between different sources, through either increased taxation or social contributions. In this respect, BUSINESSEUROPE would like to emphasise that high levels of employment can only be achieved if labour costs remain contained. Increasing employers' social security contributions would therefore be counter-productive. A reduction of non-wage labour costs, notably through lower social security contributions, is essential to keep or create new jobs in the face of globalisation and demographic ageing.

Flexicurity and the Lisbon strategy for growth and jobs

31. BUSINESSEUROPE fully supports the Commission's intention to integrate flexicurity in the next coordination cycle of the Integrated Guidelines. This will strengthen the coherence of Member States' policies and thereby enhance their effectiveness. Likewise, it is a good idea to strengthen and focus the mutual learning programme more so as to improve the exchange of good practices. Last but not least, European employers also welcome the fact that the Commission encourages Member States to involve social partners in the National Reform Programmes. This is key to foster the necessary ownership of the Lisbon strategy and ensure that all stakeholders work in a constructive way to genuinely facilitate the implementation of necessary reforms.

On the role of various players

32. The design and implementation of flexicurity-policies requires comprehensive action across a broad range of policy domains, by various actors and at various levels of policy-making. However, the competence to take action lies primarily with the Member States. Most of the decisions will therefore have to be taken at national level. Yet, the EU can play a useful role by:
- completing the internal market, in particular for services, as this will increase growth and jobs prospects for the EU as a whole;



- providing a framework to facilitate Member States' labour market reform efforts;
 - providing a platform for the exchange of best practices with respect to flexicurity;
 - monitoring national reforms using the instruments of the European growth and jobs strategy.
33. BUSINESSEUROPE fully agrees with the Commission that social partners have a key role to play in developing flexicurity policies. After all, they are best placed to find solutions reconciling economic and social needs of labour market players and devise concrete arrangements that benefit both companies and employees. For example, agreements between the social partners can play an important role in promoting lifelong learning. The framework of actions on the lifelong development of competences and qualifications negotiated by the European social partners and subsequent implementation reports have shown that agreeing on a common approach to lifelong learning contributes to changing attitudes.
34. BUSINESSEUROPE accepts the Commission's invitation to engage in a dialogue with the other European social partners on the basis of the common principles approved by the European Council. As part of their work programme 2006-2008, the European social partners have undertaken a joint analysis of the key challenges facing Europe's labour markets. Acknowledging the fact that the flexicurity approach can create a win-win situation for companies and workers, they have developed a common understanding of and joint recommendations around the key components of flexicurity. The joint labour market analysis is the main contribution of the European social partners to the European Council which is expected to adopt a set of common principles in December 2007.

Conclusion

35. A status-quo on European labour markets is no option. Firm and forward-looking action is necessary to correct structural weaknesses. Governments must take the necessary measures to better combine the requirements of flexibility and security in order to overcome the trade-off between more inclusive labour markets and strong productivity growth in which many Member States are currently trapped. The Commission can help by facilitating discussions and policy developments at the EU and national level. BUSINESSEUROPE believes that the Commission Communication on flexicurity constitutes an important step in the right direction by promoting reform through a set of common principles while respecting the policy competence of Member States.