

Aspects of labor market flexicurity in the Mediterranean and Anglo-Saxon models

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Abstract. *In the context of the economic crisis and the challenges of globalization, the paper presents and analyses relevant aspects of labor market flexicurity, especially in the Mediterranean and Anglo-Saxon model. Thus, the labor market in Spain and the United Kingdom has been studied, highlighting the reason behind existing problems, compared to other EU countries, notably in the Euro area (Italy, Greece, Portugal, Germany). Labor market flexicurity highlights labor market flexibility while, at the same time, ensuring safe transition for employees from a job to another. In this context, it should be emphasized that integration in the Economic and Monetary Union involves fulfilling a major condition in order to cope within the Union, namely labor market flexibility.*

Keywords: Mediterranean model; Anglo-Saxon model; flexicurity; economic crisis.

JEL Codes: E24, J21.

REL Codes: 12G.

1. Introduction

As a concrete element, regarding the outstanding importance and influence of labor market flexicurity, compared to economic development, on one hand, and improving the quality of life, on the other hand, we can strongly say that this concept is a tool for sustainable socio-economic recovery in any human society. In this context, it should be pointed out that integration in the Economic and Monetary Union involves fulfilling a major condition in order to cope within Union, namely labor market flexibility. Therefore, labor mobility for Mundell (1961) is the most important criterion in defining optimum currency areas; it is able to take over the function of stabilizing the exchange rate because, through labor migration, the inflationary tendency is removed in a part of the region and employment issues to another region. Starting with the Lisbon Strategy and continuing with the Europe 2020 strategy, one of the objectives is to increase quality and productivity of labor, including flexibility and safety.

The analysis covers a range of relevant issues regarding labor market flexicurity in general and especially in the Mediterranean and Anglo-Saxon model. Furthermore, this concept is endorsed by one of the winners of the Nobel Prize for economics in 2010, as the main instrument of economic recovery and reduction of the massive unemployment rate surging in the EU. On the other hand, a number of autonomous trends on the labor market highlight the growing trend of implementing labor market flexicurity.

The economies of many European countries are going through profound structural changes. In response to these new challenges, most developed countries continuously adjust employment policies. At the heart of these models, the concept of flexicurity, consisting of *flexibility* and *security*, has recently gained more ground. The widespread concept is based on the belief that flexi-security is not just a state of the labor market or an analytical framework, but a political strategy that leads to win-win situations because it fulfills the employers' flexibility requirement (in order to increase the competitiveness of companies) and the employees' security requirement. Flexicurity, as a public policy strategy, refers to: "A strategy that is, synchronically and deliberately, aimed at increasing the flexibility of the labor market, its institutions and labor relations and, on the other hand, at increasing employment and social security, especially for vulnerable groups and those outside the labor market" (Wilthagen, Tros, 2004).

2. How should we understand labor market flexicurity?

The European concept of flexicurity designates a synergistic relationship between flexibility and security on the labor market. This implies a beneficial combination of flexible and serious contracts, comprehensive lifelong learning strategies, effective and active policies on the labor market and modern, adequate and sustainable social protection systems.

The concept of workplace security is considered and this concept is replaced by that of employment security. To keep a certain job that is not economically feasible may be counterproductive. It opposes restructuring and efficiency. In contrast, investment in developing new skills and abilities toward an active man gives him the chance for a smoother transition to a new career, by reorientation and retraining.

Flexicurity should promote labor markets that are more open, more responsive and more inclusive that can solve the problem of segmentation (Stanef, Manole, Militaru, 2012). This refers to both the employed and unemployed population. The inactive population, the unemployed, those with jobs that are undeclared or unstable should be given better opportunities, economic incentives and support measures, in order to have easier access to work or steps that help them find a stable and legally secure job. Support should be given to all those who have a job in order to remain able to work, to move forward and deal with horizontal and vertical transitions, from work and in between jobs.

Flexicurity does not refer to just a single labor market or to a single active life model or a single policy strategy, it should be adapted to specific situations of each Member State. Flexicurity implies a balance between the rights and responsibilities of all parties involved. With the common principles as landmarks, each Member State should develop its own flexicurity model.

Taking into account the experience of the European Union, as well as the need for an integrated approach, in order to achieve a high level of flexicurity, it is necessary to fulfill certain conditions:

- The possibility of flexible work contracts and forms of work organization, thus avoiding the phenomenon of discouragement and withdrawal from the labor market of people with low skill levels. At the same time, well trained people are able to adapt more quickly;
- Improving the content and forms of lifelong development, based on the idea that extending and improving the quality of training systems lead,

in the long term, to increasing employment rates and reduce gender discrimination. This stimulates the creativity of human capital and the investment therein;

- Active policies of labor market may contribute to an increase in labor mobility, significantly reducing the costs of social protection achieved through passive methods of minimizing the imbalances found on the labor market;
- Modernization of social protection systems can contribute to the activity of labor supply, avoiding the trap of poverty, by supporting reconciliation of work and family life. An active person, with a good physical and mental condition, will be more likely to be hired by a company because that person works with higher efficiency.

Fulfilling these requirements help improve the quality and mobility of labor, based on the idea that the quality of labor supply depends on both the skill and the desire of older people to get involved in economically and socially useful activities, as well as the degree in which the human potential is protected, in the context of imbalances between labor supply and demand. To implement the principles of flexicurity, coherent action must be taken by social and public authorities.

Workforce flexibility should be analyzed according to the following factors:

- i) Wage flexibility (in both real and nominal terms);
- ii) Labor mobility;
- iii) Shock absorption - salaries' ability to absorb shocks in case of short-term unemployment, to the detriment of unemployment.

Wage flexibility reflects the extent to which wage and salary cost is correlated with the ratio between supply and demand that exists on the market at a certain time. In order to achieve higher wage flexibility, remuneration systems should be based on performance and not on the degree of unionization. The wage should be determined based on labor productivity, so the higher labor efficiency is, higher the salary will be. But, as there is a tendency of near-equalization, unions demand higher salaries without they being justified by productivity and efficiency. Difference between wages must exist in order to maintain work motivation and stimulation, as well as the motivation of each employee concerned with improving their professional training.

Labor mobility implies the ability of people to change jobs in the labor market, without restrictions or risks when moving from one job to another, or from one employer to another. In terms of the scope of the labor market, we distinguish the domestic labor market and the foreign market, at an international

level. The free movement of people also implies mobility/movement of labor, both in the domestic labor market and the EU market. Movement of labor occurs, internally, under the conditions of the market economy, in which the laws of supply and demand are fundamental. Workforce must be supported to learn throughout life and specialize in several areas so that they can easily change the work place, if so requested either by labor market demand, or his/her preferences. Labor mobility is necessary in order to avoid “economic collapse” in some areas of the country or abroad. Thus, workforce can move where it is needed in order to balance the economy of certain areas and avoid “crowding labor market” in some areas.

Security in the workplace

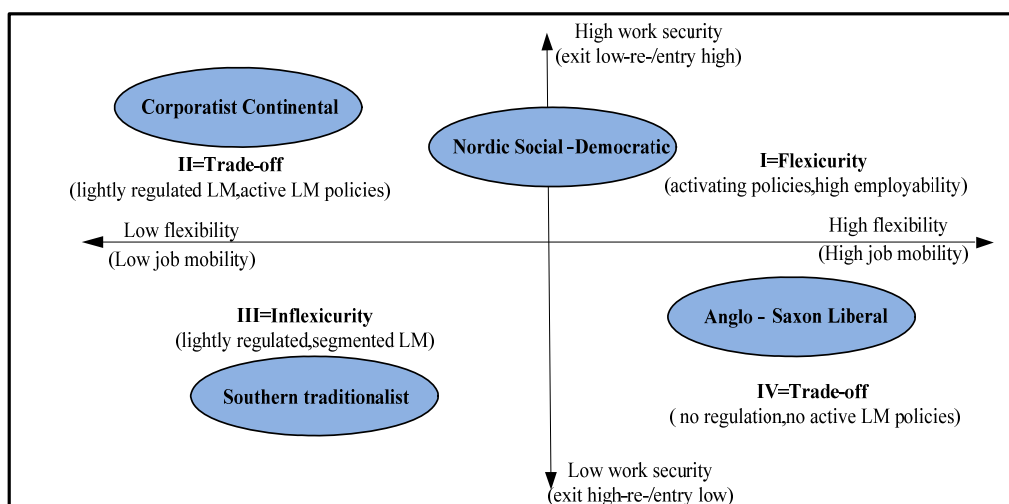
Along with increasing labor market flexibility, it is necessary to increase the protection of employees, including individual responsibility on their efforts to find a job. From this point of view, an important role is played by the Public Employment Service which will redirect its active measures toward groups of unemployed people who are reluctant to get involved in activation programs or who have difficulties getting employed, by increasing attractiveness of jobs. Security in the labor market refers to more than maintaining a job: it refers to skill development or access to skills that enable progress in the professional life and support in finding a job. It also refers to adequate unemployment benefits with the purpose of transition to socio-professional integration. Finally, it encompasses training opportunities for all workers, especially those with a low level of skills and older workers. Increasing security, in terms of employment, also establishes responsibilities for the employee-employer relationship.

The complex components of flexicurity have been experienced by several countries in the European Union that illustrate, with the help of monitoring reports, several models as a basis for analysis, of which stood out: *the Danish model, the Austrian model, the French model and the Finnish model*. The first model, the Danish one, stood out mainly because of its practice of temporary replacing displaced staff by training companies with long-term unemployed people, who are reintegrated into the labor market temporarily. The second, the Austrian model, is distinguished by encouraging labor mobility. A new obligation of employers was introduced and it consisted of transferring, on a monthly basis, a fixed sum of money into an individual savings account, opened on behalf of each employee. They can benefit from these economies in case of dismissal. The French model focuses on modernizing the labor market, linked to the reform of public employment services and the development of a vocational training system. The Finnish model focuses on the exiting flows in

the labor market, the regulations concerning transition from a job to another, correlated with the transition from unemployment to employment and the quality of working life.

3. The main flexicurity models, based on the relationship between flexibility and security

Flexibility and security can be theoretically combined in four ways, each of which is based on one of the two specific options of employment policy: flexibility and security are seen in opposition (employment policies focus only on one of the two terms) or they mutually reinforce each other (employment policies aimed at flexicurity).



Source: Muffels and Luijckx, 2004.

Figure 1. The main flexicurity models

I) *The Northern model (flexicurity): the Nordic socio-democratic model* – high flexibility, high security. This model combines flexible labor market regulations with a comprehensive system of protection for the unemployed and it focuses on vocational training measures. An institutional approach is taken, according to which, regardless of the economic cycles, institutions may determine convergent trajectories of flexibility and security, mainly by mobilizing employers and unions (employees). From this point of view, the labor market would function better if all parties adopt the model of knowledge economy and focus on investment in human capital throughout the career.

Thus, we can ensure both an increase in chances of being employed (“employability”) for employees, as well as corporate flexibility. Employee safety is seen in the broader perspective of the entire working life, it is more about employment security throughout life rather than security at a particular job. Stability is not related to a specific job but the high chance of passing from one job to another (re-entering the labor market fast, in case of job loss). Therefore, companies' flexibility is understood as an opportunity for employees to constantly improve and update human capital, which in turn makes a high degree of flexibility possible. The main disadvantage is related to high costs. The Danish model is a combination of the liberal model and the socio-democratic model of social protection. It is called the “golden triangle” and it combines high mobility between jobs, comprehensive social protection and active measures for the unemployed, it is also an expensive model. High mobility of employees is associated with flexible regulations of industrial relations. Every year, about a quarter of employees in Denmark is affected by unemployment and receives generous unemployment benefits. Most are able to quickly re-enter the labor market. The others are integrated into schemes of active measures (mainly professional training) to protect or improve their chances of being hired. However, in order for the Danish model to be applied, a number of pre-conditions must be met: strong economic growth, accompanied by the creation of new jobs, funding for social policies, good governance and a well developed system of enforcing active measures for training and education, a good collaboration of social partners, intensive and decentralized social dialogue, legitimacy, social support from citizens.

II) *The continental corporatist model*: low flexibility, high security. In most countries, including Romania, this combination is preferred by unions. For example, in France, although the rate of unionization is low (around 10%), the population strongly supports this model. That is the reason for the highly publicized and violent street protests of youth in response to the government's attempts to introduce labor market flexibility measures. Therefore, there are rigid labor market regulations as well as a comprehensive system of protection for the unemployed and emphasis on vocational training measures. The main advantage of such a policy is the high security for employees in the formal labor market. There are also disadvantages for both companies (due to rigid labor market regulations, companies can not adjust quickly by firing employees in the event of external shocks or adverse developments in the market, so the adjustment process of firms is relatively long) and individuals (due to increased labor market segmentation, rigid labor market regulations favoring workers in the formal labor market but offers no real chance of entering the labor market

for individuals outside it – the unemployed, workers in non-performing or informal sectors, therefore, the employment policy focuses more on existing job security and not on employment security and income of individuals).

III) *The Mediterranean model* (inflexicuritate): low flexibility, low security (Southern Europe: Spain, Portugal, Italy and Greece). This option is based on a certain type of economic growth, based on tourism, agriculture and construction, with a segmented labor market with limited access, relatively low mobility of labor and an informal sector that is well represented. It is considered to be a lose-lose situation, meaning that none of the social partners have anything to win, since both companies' flexibility as well as employees' security are relatively low. In addition, the situation of groups excluded from the formal labor market is a serious concern.

IV) *The liberal Anglo-Saxon model*: high flexibility, low security. This combination is favored by employers, however, it jeopardises the security of employees. This model is based on very flexible labor market regulations, in the absence of a comprehensive system of protection for the unemployed and, also, active measures for professional training are given little attention. In the context of the new structures of the knowledge economy, given the low demand for unskilled workers, their wages lower to the level of minimum wage, which is regulated by law. However, precisely because there is a certain level for minimum wage, productivity is insufficient to compensate for wage costs, which leads to reducing the number of unskilled workers. Therefore, the unqualified face strong barriers to entry into the labor market and are even excluded from the labor market. The most vulnerable to exclusion are exactly the disadvantaged groups with low social status and poor human capital. Exclusion from the labor market entails passing into the informal sector, which imply instability and insecurity of work, as well as income.

4. The Mediterranean and Anglo-Saxon model – comparative analysis

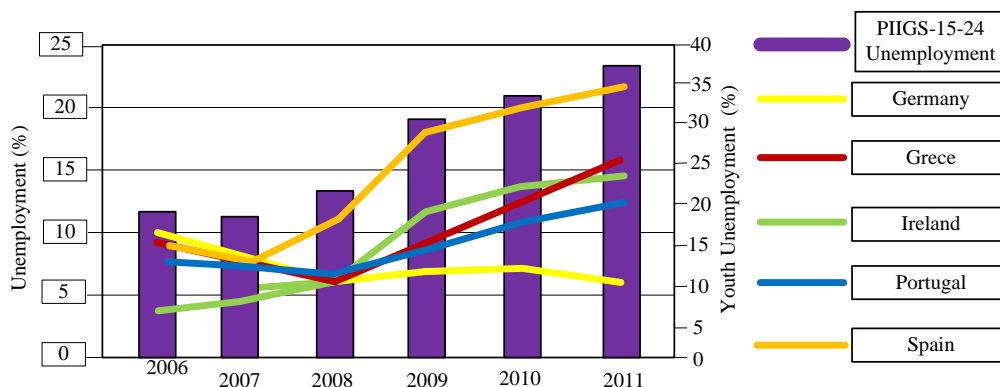
The Mediterranean model is based on expenditures for pensions, job protection, a relatively homogeneous structure of wages, obtained through collective negotiation. The main feature of the labor market policies is a rigid legislation for employment protection and support for early retirement policies, as a means of improving employment.

The liberal Anglo-Saxon model highlights the following aspects:

- It emphasizes individual responsibility for oneself and the labor market is not regulated;

- Social transfers are much smaller than in other models, they are more focussed. Consequently, social policies usually serve social classes with low-income. The state encourages market players to provide services and offers recipients (low income groups) the choice between public and private providers;
- Private insurance and savings schemes are supported by complementary state policies (eg, tax credits and tax shelters). Labor relations are decentralized and negotiations take place, mainly, at company level;
- Ireland has similarities with the UK, despite the fact that we find more pronounced interventionist policies here. This can be attributed to the special position of Ireland, which quickly moved from the position of a country with low incomes to one of the most expansive European economies, in terms of growth rate.

Regarding the labor market situation in Spain, we find a historically new high unemployment rate of 24.4% at the end of the first quarter of 2012, which represented a significant increase from a rate of 22.9% at end of 2011. Spain will be haunted by huge unemployment rates for many years, especially among the young population, but now things are worse than ever. For 2012, a new rate of unemployment is expected, that of 25.4%. The total number of unemployed people increased by 365,900 between January and March 2012, reaching 5,639,500.



Source: http://translate.google.ro/translate?hl=ro&langpair=en%7Cro&u=http://articles.businessinsider.com/2012-01-7/markets/30634557_1_unemployment-rate-rajoy-spain

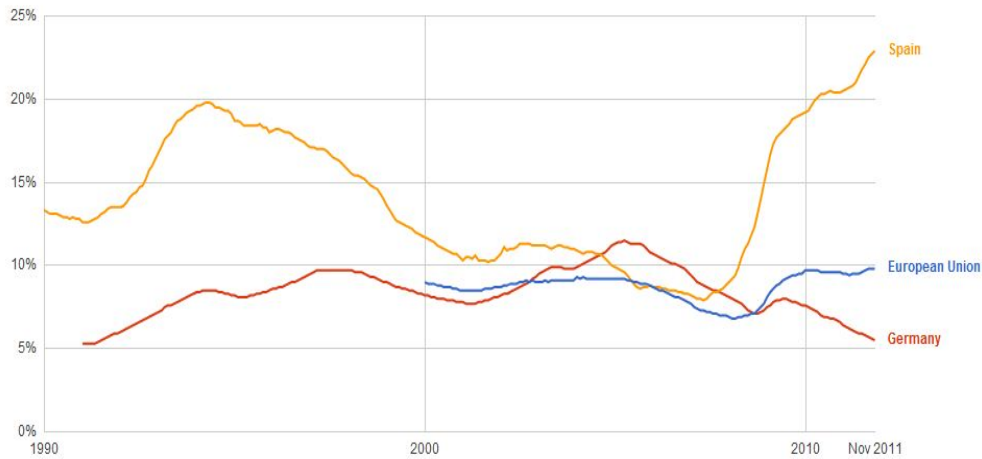
Figure 2. Evolution of the PIIGS unemployment rate in the period 2006-2011

From the above chart, in the PIIGS group of countries, an increasing trend of the unemployment rate in the period 2006-2011 is observed. It also shows that the only country, among those analysed that registered a contrary but still positive trend is Germany. After a more detailed analysis of the situation of the other countries, the following aspects can be distinguished:

- Portugal has registered an unemployment rate of 13.2% in November 2011, an increase of 0.9 percentage points over the previous year;
- Ireland reported an unemployment rate of 14.6% in November 2011, an increase of 0.3 percentage points over the previous year;
- Italy had the lowest unemployment rate, among PIIGS, of 8.6% in November 2011, an increase of 0.5 percentage points higher than the previous year;
- For Greece, unemployment was at 18.8% in September 2011 with an increase of 5.5 percentage points over the previous year. Greece is the only country where the unemployment rate rose faster than in Spain.

Comparison between the evolution of the unemployment rate in Spain and Germany

In terms of the comparison between the evolution of the unemployment rate in Spain and Germany, it was found that the major differences between the economic trajectories of the countries in the Euro zone reached their peak, in the first month of this year, after Germany announced the lowest unemployment rate in the past 20 years, while Spain registered the highest number of unemployed people, for the fifth consecutive month. The number of unemployed Spanish people increased to 4.42 million, while the number of unemployed Germans lowered to 2.97 million. Another study, based on households, shows that Spain has even more unemployed, about 5.4 million people, almost 23% of the workforce. This value ranges, for Germany, at only 6.8% (December 2011).

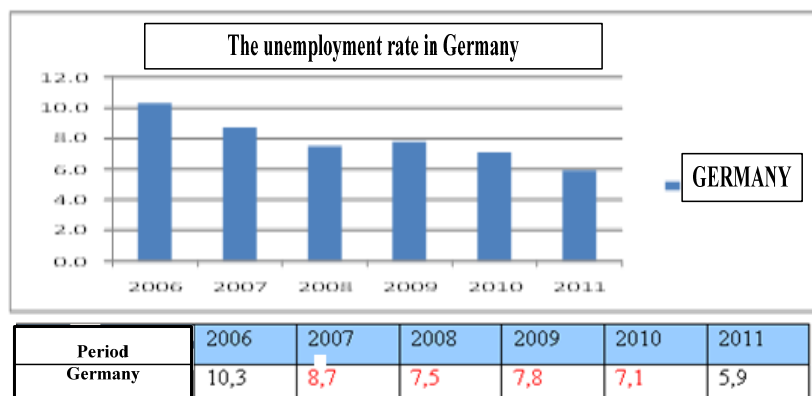


Source: www.tradingeconomics.com

Figure 3. Evolution of unemployment rate in Spain versus Germany

While Spain and other countries have announced labor market reforms, in order to give another chance to their economies, in 2012, the most persistent issue the Euro zone leaders must face refers to the courage of politicians to implement tough austerity measures.

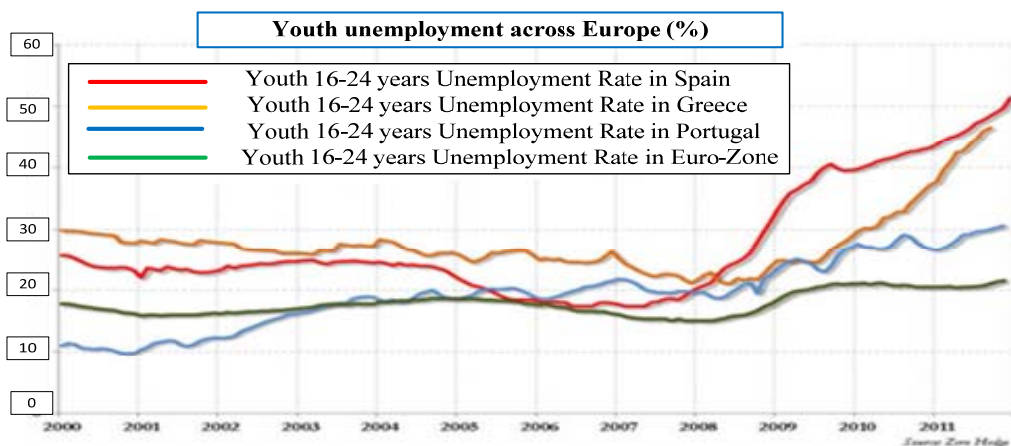
In January 2011, the unemployment rate among young people (under 25 years) was 19.9% in the Euro zone and 20.6% for the whole bloc, while in the same month of the previous year it was 20.2% and 20.7%. The lowest unemployment rate among young people was registered in the Netherlands (7.8%) and the highest rate was in Spain (43.1%), where it is expected to exceed 45% by the end of 2012.



Sursa: Eurostat.

Figure 4. Evolution of unemployment rate in Germany (2006-2011)

Germany, long considered the “engine of the Euro zone”, especially since it mass produces for exports, manages excess workforce better. Throughout the crisis, it even managed to reduce unemployment to 7%. Citizens accepted reduced working regulations instead of abolishing jobs and the government pays compensation amounts to companies, in order to maintain part-time employees, instead of firing them.

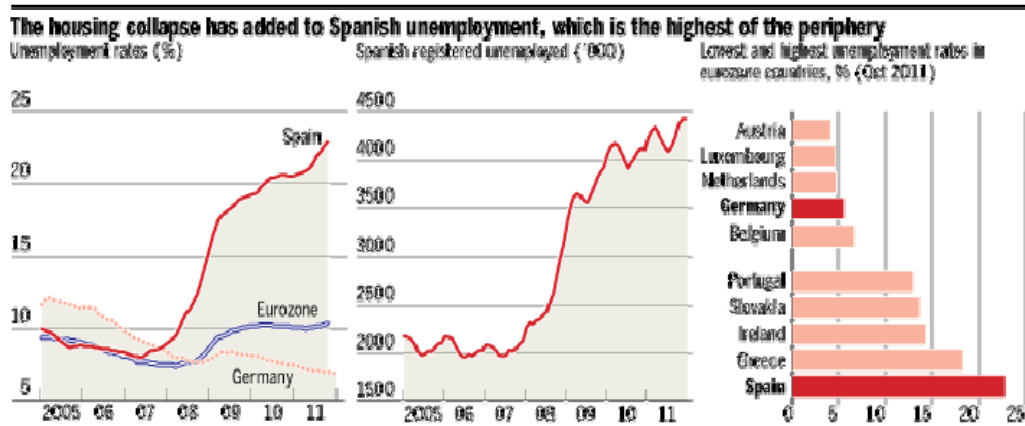


Source: <http://www.zf.ro/business-international>

Figure 5. Unemployment rate among young people during 2000-2011. Comparative analysis in the Mediterranean model (Spain, Greece, Portugal, Italy) and the Euro zone

The decline of the Spanish economy and the level of labor market flexibility

The unemployment rate in Spain, of 22.9% in November 2011, increased by 2.5 percentage points (pp) over the past year. The global financial crisis hit Spain, drastically affecting the construction industry, which led to the removal of two million jobs and now, the country is struggling with a crisis of emmigration. The government of Mariano Rajoy, the new prime minister from the center-right People's Party, believes that aggressive reforms imposed on the country's inflexible labor market, combined with benefits for small businesses will help generate jobs. Also, budget expenditures will be reduced and taxes will increase in order to reduce the budget deficit, which must reach the level of the European Union.



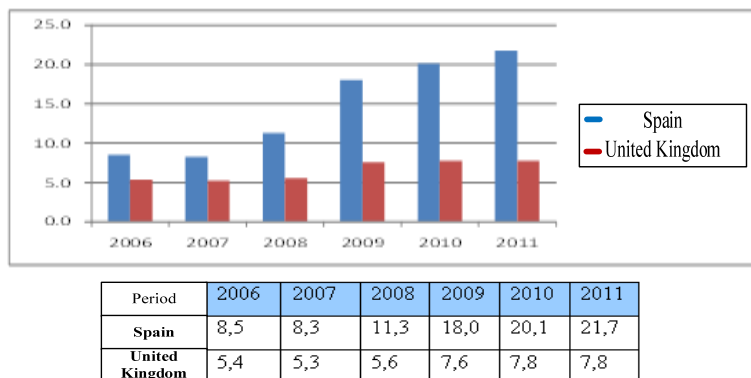
Sources: Thomson Reuters Datastream, Eurostat.

Figure 6. Decline of the Spanish economy in terms of the unemployment rate

Out of all the European countries, the most affected ones were those that had significant increases in the minimum wage in the years preceding the crisis; Spain, one of the countries with a very high rate of unemployment, reaching a level of 20.5% in April 2010, had an increase in the minimum wage from 490 Euro/month in 2004 to 700 Euro/month in 2008.

Regarding the problems in the labor market in Spain, one can identify the following:

- Encouraging non-labor in some regions by excessively and deficitly using social protection measures;
- With the outbreak of the crisis, those who lost their jobs were paid, by the state, 75-80% of the last salary for two years, therefore, many people willingly gave up their jobs in order to receive state money;
- After two years of unemployment luxury, Spaniards were eligible for another nine months for an aid of 600 euros per month; social protection measures led to difficulties in the labor market and high national debt, in addition to those generated by real-estate and economic crisis.



Source: Eurostat.

Figure 7. Comparative evolution of the unemployment rate between Spain and the United Kingdom

It is noted that the United Kingdom, where there is a high degree of flexibility of the labor market, has fared much slower in terms of raising the unemployment rate, so that in 2011 amid the ongoing effects of the economic crisis unemployment in UK represented about a third of the unemployment rate registered by Spain.

Labor market flexicurity highlights labor market flexibility, while ensuring a safe transition for employees from one job to another. Bear in mind that this concept refers to both external flexibility, as well as internal flexibility and security. Regarding flexicurity in the United Kingdom, the British model, which is less regulated, less syndicated and with lower taxes, is an example of flexicurity in action. Although, in England the workforce has a high degree of flexibility – with about 6,000,000 leaving work each year and a similar number who find new jobs – more than two thirds of these job changes are voluntary and workers in the United Kingdom feel generally safe in their jobs. England has the second lowest rate in the EU for the percentage of workers who fear they will lose their jobs over the next six months. In addition, the flexibility of legislation for the protection of employment meant that the UK had a relatively high rate of workers employed on permanent contracts (representing 94% of the workforce). Integrated flexicurity policies play an important role in upgrading the workforce and contribute to achieving occupancy of 75%, set by the European Strategy 2020. For countries that have made significant changes for a more flexible market, such as the UK, the Netherlands and Spain, there were increases in income inequality and reductions of skilled labor that can not be regarded as socially optimal.

Possible solutions for Spain to overcome the crisis

A significant step in this direction is to improve the tax base and the best way to do this is to strengthen its educated workforce.

“They need more employees in the office”, says Edmunds, noting that Spain should “facilitate the migration of skilled workers between regions and attract skilled workers from abroad (John Edmunds, professor of business at Babson College in Wesley, Massachusetts).

Another challenge for Spain is to try to get more people with higher education to move and live there. Also, skilled workers, with administrative, professional and managerial activities, tend to be a more reliable source of tax collection than small businesses. Spain, Greece and other countries, including the US, are facing problems in collecting income taxes from small business owners. Last but not least, we must consider that tax evasion is one of the problems that led to the fiscal crisis in Greece, whose situation is worse than that of Spain, with huge debts, strict austerity measures and yields of bonds which exceeded 20%.

5. Conclusions

To ensure the highest level of labor market flexicurity, certain aspects must be followed, such as: providing flexible employment structures – in terms of flexibility of working hours and flexibility of work skills; ease and cost of hiring/dismissal, short-term employment contracts, increased flexibility for payment schemes and housing flexibility.

In the Mediterranean model, unions and employers are important for the highly centralized negotiation process of wages and working conditions. Employment rates, especially for women, are very low. The Mediterranean model is used by Spain, Italy, Portugal and Greece.

Occupancy is higher in the Anglo-Saxon model, the difference being attributed to maintaining high occupancy rates for the elderly and a lower rate of youth unemployment.

By using the concept of flexicurity, several part-time jobs have been provided and most were registered in Germany, which was reflected in employment occupancy, which is the best in the Euro zone. Given the diversity of EU Member States, in terms of socio-economic and employment patterns, the following question is raised: How effective is the European Union's capacity to overcome the challenges posed by the current economic crisis?, given that flexicurity policies have been questioned and the most affected during this period of economic downturn are those from vulnerable groups, especially young people.

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