



# Interactions between the labour market and social protection

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## **Introduction**

The European Foundation for the Improvement of Living and Working Conditions organised a seminar on the theme of interactions between the labour market and social protection on 16 May 2002 in Brussels.

The Foundation is committed to contributing to the planning and design of better living and working conditions for all in Europe. It carries out research and development projects to provide data and analysis for informing and supporting the formulation of EU policy on working and living conditions.

This seminar builds on work done previously by the Foundation such as the first Foundation paper on quality of work and employment which highlights four key dimensions to assess quality of work and employment: career and employment security, health and well-being, skills development and the reconciliation of working and non-working life. It refers also to a number of more specific projects, which are/have been carried out by the Foundation such as 'negotiating the conditions of flexibility', 'pacts for employment and competitiveness', and 'integrated approaches towards the activation of minimum-income recipients'.

The seminar of 16 May 2002 brought together leading experts on social inclusion, flexibility in the labour market, industrial relations and time issues. The Foundation hopes to contribute to the debate and to the development of evidence-based policies in this area. Certain issues are not dealt with in this seminar but do have some implications for the main theme of interactions of labour market and social protection. One could think here of, for example, the consequences of the ageing of our populations.

The seminar should be placed in a European context, which sets out several major objectives:

### *Promoting employment*

Key targets have been set by the Lisbon Summit to increase employment rates from 54% (2000) to 60% for women, from 37% (2000) to 50% for the over 55s and overall from 63% (2000) to 70%.

### *Developing quality at work*

The social policy agenda and the strategy agreed at the Lisbon European Council underline the need to move to full employment by creating, not only more jobs but also, better jobs.

### *Recognising the right to work*

Recognising that all men and women in Europe have a fundamental right to work, the social policy agenda highlights the inter-dependence and re-enforcing role of economic, social and employment policies. Boosting employment levels and modernising labour markets must be balanced by building an active and modern welfare state. Economic growth and competitiveness in Europe will go hand in hand with social cohesion, solidarity and justice.

### *Promoting gender equality*

This objective is set out in the Amsterdam Treaty.

### *Integrating the excluded*

At the Lisbon European Council, Member States committed themselves to making a decisive impact on the eradication of poverty and social exclusion.

### *Strengthening social dialogue*

Dialogue and social consultation are key elements of the European social model. It is the required procedure for managing change at all relevant levels. New ways of striking a balance between flexibility and job security in the labour market are being sought through social dialogue.

### *Building an enlarged social Europe*

The European social model is about justice, participation, social dialogue and the mechanisms that underpin social factors and are key to improving productivity. This defines the Union, which candidate countries seek to join. The challenge is to develop such a model for all countries involved.

### *Managing change*

Providing companies and individuals in Europe with tools to continue to learn, adapt and develop must ensure that people are equipped to face change.

Reconciling these objectives may not be easy and will require innovation. An example of the multiple challenges that must be resolved can illustrate this:

- Identifying models of labour markets, that result in high employment rates;
- Safeguarding a high level of social protection in terms of a range of services and conditions of access to workers (as defined in the European Social Charter and in the Council Recommendation on the convergence of social protection objectives and policies);
- Complying with the public deficits and spending convergence criteria agreed by Member States in the Maastricht Treaty in 1992;
- Making 'welfare mixes' more gender-friendly, thus ensuring equal opportunities for both men and women;
- Adapting welfare states to the new contexts, risks and patterns of social and working life;
- Identifying the conditions for such a success.

The main conclusion to emerge from the seminar is that interactions between the labour market and social protection are complex but very necessary in the actual situation in Europe. Creative policy mixes are needed in order to make the trajectories of policy reform successful. They will lead to more sustainability of the European social model.

## **Structure of the seminar**

*Hedva Sarfati* provided an overview of changes affecting labour markets and their consequences for social protection. She mapped out the key issues that need to be taken into account.

The first workshop focused on the integration of long-term unemployed and inactive people into the labour market. It built on the presentation of several national experiences that are often viewed as successful and then focused on the practical aspects of institutional coordination to deliver an effective policy.

The second workshop looked at flexibility and ‘flexicurity’ issues by looking at their consequences for social protection and the effects of social protection on precariousness. It included a life-cycle perspective on the flexibility issue.

The third workshop looked at tools, instruments and actors, which can assist in reconciling these issues. This was illustrated by a national government approach in France and by some results of social dialogue (pacts for employment and competitiveness). It also provided the analysis and proposals of the social partners on these issues. The last part of the workshop was dedicated to the future of European policymaking in this context.

## Opening session

*Raymond-Pierre Bodin*, Director of the European Foundation for the Improvement of Living and Working Conditions, introduced the seminar by explaining how the theme of interactions between the labour market and social protection is central to the agenda of both policymakers and researchers. It has always been important but now it is becoming a key issue in the Union and in an enlarged Union.

The seminar was based on a three-tiered approach: social inclusion, the challenges of labour market flexibility and alternative policy scenarios.

The interactions between the labour market and social protection are complex processes. From these processes, certain paradoxes emerge. The labour market needs a certain flexibility, which has its consequences. For instance, new risks emerge. Gaps are created in the social protection system. An example of this can be found in social protection for temporary workers. This leads to a demand for a global, common and minimum real 'protection' for all.

But we should also not forget that, in some cases, attempts to get people into the labour market and forms of social protection which aim at integration in the labour market (e.g. for young people) can have negative consequences for their inclusion and position on the labour market. They may end up in precarious jobs.

Flexibility requires the maintenance of a certain level of social protection. Among the actors involved, a particular role should be given to the social partners. In an enlarged Europe it will be necessary to establish a certain coherence, realising that nothing can be done on the labour market without some coordination between the economic and social dimension.

During the seminar, a number of successful examples are given, such as the Dutch and the Danish cases. One must also take into account their negative consequences and risks, especially if one looks at it from the angle of social inclusion in an economically and socially cohesive society in the European Union.

## An international perspective

<http://www.eurofound.eu.int/working/sarfati.pdf>

*Hedva Sarfati*, consultant to the International Social Security Association, is the project director for the ISSA initiative on 'interactions between changes in labour markets and changes in social protection systems'<sup>1</sup>. 'Strengthening the security in social security' was the motto of this initiative, which ISSA launched in 1999.

An increasingly precarious labour market exists, with more inequalities in certain countries and ageing in all countries. Against this background, interactions between the labour market

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<sup>1</sup> Hedva Sarfati and Giuliano Bonoli (eds.) (2002), *Labour market and social protection reforms in international perspective: parallel or converging tracks?*, Ashgate, Abingdon.

and social protection are receiving more attention. The discussions around economic and social choices concern unemployment, employment transformations, and poverty, including the 'working poor'. Several issues are interconnected, such as employment and financing of social protection, adaptation of social welfare systems to the non-linear careers of women and development of new forms of protection that aim at promoting employment.

Employment patterns affect people's access to social security benefits, while the rules governing the access to benefits influence employers' and workers' decisions concerning employment. A clearer understanding of this complex correlation between the two spheres is crucial for the design of public policy aimed at promoting employment and improving social security coverage. (*Hedva Sarfati, ISSA consultant and project director*)

The project aims at raising awareness of a) the need and benefits of a more coordinated approach to labour markets and social protection reforms and b) areas in which synergies can be developed between these two major social institutions.

The reasons for such a need for synergy and coherence are twofold. Firstly, and most obviously, the welfare systems associated with the European social model often date back to 1945 or earlier and were based on parameters that have drastically changed, particularly during the last two decades. They therefore need to be adapted to different needs and demands. Secondly, a fragmented approach often generates undesirable and adverse effects.

So, welfare states are being reformed, scaled back and modernised, while labour markets are getting more precarious, more feminised, in some countries more unequal, and throughout the OECD area, older.

The highly structured labour markets that predominated in the three decades post-1945 (les 'Trente glorieuses') with full-time, stable and mainly male breadwinners now seem a thing of the past. While today's labour markets still consist of a majority of full-time, stable jobs and provide welfare coverage to a majority of citizens, they also generate substantial long-term unemployment, job insecurity, low pay, poverty and social exclusion. Moreover, there is an increase in atypical employment: about a quarter of the active population is now employed in non-standard employment contracts, mainly in certain groups of the population, notably women, youth and older workers.

The existing social protection institutions thus have to address new and costly challenges, calling into question the sustainability and adequacy of the post-war social protection systems. In particular, one must question its adequacy in coping with low activity rates of the population, the withdrawal of discouraged workers from the labour market, poverty, low pay and discontinued careers, all of which limit the contributory capacity of those at work and the coverage capacity of the welfare system.

The changing socio-economic context can be seen in the shift towards a service economy, globalisation and demographic ageing. These three trends are likely to continue to affect the relationship between the labour market and social protection for the foreseeable future, imposing serious constraints on policymakers in these twin areas. These trends are also contributing to the emergence of new needs and aspirations among citizens, which puts further pressure on welfare systems.

Thus, while maintaining their traditional functions, welfare systems are now also expected to facilitate and encourage access to the labour market by:

- providing incentive structures that are favourable to employment;
- offering lifelong education and training opportunities, particularly to unemployed or disadvantaged workers, women returning to the labour market and older workers;
- making it easier for parents to reconcile employment and family life;
- developing social protection schemes that take into account non-linear employment tracks.

Arguably, facilitating access to employment may be an appropriate strategy to improve the opportunities of many disadvantaged people, but not all of them. Due to their circumstances, it may be difficult, or even impossible, for some disadvantaged persons to gain entry into the labour market.

Hedva Sarfati's general conclusion was that there is no necessary incompatibility between high levels of social protection and economic performance.

The evidence of the study shows that the best results in terms of reconciling new aspirations, enduring needs and economic constraints are generally achieved through complex, carefully balanced policy mixes, which are often the result of consultation and negotiation with the social partners. *(Hedva Sarfati, ISSA consultant and project director)*

Indeed, successful adaptation requires the coordination of several areas of government policy and labour market mechanisms. The objectives of social protection must be supported by appropriate mixes of macro-economic, fiscal and labour market policies. Effective institutions of social partnership are evidently essential for the successful coordination of these different realms of the political economy.

## **EU strategy on social protection and employment**

<http://www.eurofound.eu.int/working/clotuche.pdf>

*Gabrielle Clotuche*, Director in the European Commission, reiterated that employment and social protection are two issues that lie at the heart of European integration.

The extent to which we are successful in ensuring positive and reinforcing interaction between the two of them will be key to the Union achieving its Lisbon strategic goal of becoming the most competitive and knowledge-based economy with more and better jobs and social cohesion. *(Gabrielle Clotuche, European Commission)*

This seminar dealt with a critical dimension of the modernisation of the European social model. Such modernisation is necessary if we are to ensure that the principles of good economic and employment performance and social fairness go hand in hand in a situation of rapid economic, technological, social and demographic changes. The approach of the EU is

based on the belief that a balanced approach will see economic, employment and social policies as mutually supporting and reinforcing.

In March 2000, the conclusions of the Lisbon European Council stressed that investing in people and developing an active and dynamic welfare state are crucial both to Europe's place in the knowledge economy and also to ensure that the emergence of the new economy does not compound the existing social problems of unemployment, social exclusion and poverty. While the main responsibility for addressing new challenges lies at national level, the challenges are Europe-wide and much can be learnt from good practice in other countries. For this reason, the EU has put in place a new method of fostering European cooperation in order to bolster national reform efforts. This method is the so-called 'open method of coordination'.

In Lisbon, the heads of state and government agreed that it should be applied successively in the fields of poverty and social exclusion, pensions, health care and reforming the tax and benefit systems. Interaction between the labour market and social protection has emerged as a key issue in the implementation of the open method of coordination on poverty and social exclusion.

The joint report on social inclusion reflects this very well. The report contains an analysis of the National Action Plans against poverty and social exclusion, prepared by all Member States and endorsed by the Laeken European Council in December 2001. It identifies a number of interesting and fruitful policy developments in Member States in order to modernise social protection systems. In this way, they can help to overcome obstacles to employment by ensuring that employment take-up results in increased income and by promoting employability.

Supporting this process of policy exchange and learning among Member States on the issue of interactions between social protection and employment will continue to be a central aspect of the open method of coordination over the next few years.

## **(Re)integration into the labour market**

*Robert Anderson*, research manager and coordinator of the Living Conditions team at the Foundation, opened this first session around the theme of how to help people back into the labour market. He provided success examples from two countries, macro-data and a picture illustrating a study which covered more than 40 localities in the EU.

### **Different routes to improved employment in Europe**

<http://www.eurofound.eu.int/working/andersen.pdf>

*Jørgen Goul Anderson*, Director of the Centre for Comparative Welfare State Studies, Aalborg University, Denmark, analysed the different routes to employment. He began with the point that the significantly improved employment situation in many European welfare states challenged the dominant interpretation of welfare arrangements as a source of natural unemployment in a global economy. There seem to be different paths to improved employment in Europe, not just market-oriented reforms of labour market and social protection systems.



In the 1990s, the general interpretation was that generous welfare states and regulated labour markets generated natural unemployment. In short, Europe seemed to face a trade-off between equality and employment. However, empirical evidence was never convincing. There was an unexpected improvement in the employment situation in quite a few European countries in the second half of the 1990s and early 2000s.

There seems to be a compatibility between welfare and employment in a global economy. In 1996 three countries (Norway, Switzerland and Austria) had lower unemployment rates than in the US, but the Netherlands and Denmark joined them in 1998. By March 2002, nine countries had lower unemployment rates and three countries had experienced an improvement beyond what one could expect from the NAWRU predictions. Together, 12 countries broke predictions. Inflation is not the explanation.

There are two possible interpretations. The successful countries reformed their labour market and social protection systems – although in many cases in alternative ‘European’ ways – and thereby obtained these improvements. Or unemployment was rooted in quite different problems that had little to do with labour market and social protection systems.

Labour market and social protection are not responsible for the improvement in combating unemployment. All we can say is that they have not been obstacles, i.e. that these welfare configurations have proved compatible with the requirement of the global economy.

Optimistically, we could conclude that Europe is not ‘condemned to unemployment’, that it does not face a trade-off between equality and employment and that there seem to be several ways that seem compatible with improving unemployment, not just market reforms. European welfare states have several possible futures. But they have a future. (*Jørgen Goul Andersen, Aalborg University*)

### **A critical view of the incentives to help beneficiaries back into work in the Netherlands**

<http://www.eurofound.eu.int/working/pennings.pdf>

*Frans Pennings*, from Tilburg University, explained the (successful) policy of the Dutch government of the past eight years, with its motto ‘work work work’. Certain categories are specifically encouraged to look for work in a favourable economic situation: recipients of social assistance, unemployment benefit and disability benefit. It has been successful for the first two categories, but it remains hard to reduce the number of people with a disability allowance. Despite developments in the economy and changes in the conditions for benefits and subsidies for the recruitment of disabled workers, the number of claimants of a disability benefit continues to rise.

In the current system, benefits are awarded in relation to the loss of earnings capacity. This means that part-time benefits are payable to those who are still capable of earning an income. The assessment test is strict: all kinds of work a person can do are taken into account, not only suitable work, to determine earnings capacity. Of all claimants, only 50% have a full benefit; others can have a partial benefit, which could be combined with a job. This system could encourage persons who still have earnings capacity to take up work, as claimants are compensated for their lower earnings capacity.

Furthermore, subsidies can be paid to employers (flat-rate sums) for recruitment of a disabled worker and for adjusting the workplace. Special agencies undertake reintegration activities. However, very little is known about the effect of these reintegration subsidies, and the take-up of the subsidies, both by employers and persons with disabilities, is much lower than could be expected. Flat-rate sums were replaced by deductions from the contributions, but it remains difficult to assess their long-term effects.

The main problem is that the number of new claimants of disability benefits is still growing. This could be due to administrative reasons. But it could also be due to the restructuring of the labour market, in which 'light jobs' seem to disappear. A new category appears, those with mental problems, who suffer from burn-out and tiredness. (*Frans Pennings, Tilburg University*)

Proposals have been made to pay disability allowances only to people who have a permanent incapacity to work (at least five years). A private insurance should compensate for income loss in case of more than 35% disability, which applies only if the person is still working. This increases the pressure to keep on working. These persons otherwise have to rely on unemployment benefit. There is a waiting period of two years before a claim for disability benefit can be made, during which the employer has to keep on paying 70% of the wage and during which both employer and employee have to try to find a job for him or her (their efforts will be assessed).

It is unclear whether these new incentives and proposals will have an effect. There could be a perverse side-effect with the contrary effect, namely that employers could become more strict in their selection of new workers in order to avoid the burden of ill employees. Also employers may offer bad jobs to ill workers, trying to persuade them to resign. Frans Pennings concluded with a suggestion: given the high rate of incapacity, it could be worthwhile to think in terms other than incentives, such as binding quota rules.

### **The Danish model of flexicurity**

<http://www.eurofound.eu.int/working/madsen.pdf>

*Per Madsen*, associate professor in economic policy in the Department of Political Science, University of Copenhagen, Denmark, presented an introduction to the Danish system and a critical analysis of the factors behind the recent changes. Over the past decade, Denmark has experienced a dramatic decline in unemployment.

Denmark seems to have created a unique combination of stable economic growth and social welfare since the mid-1990s. The term *flexicurity* is used to characterise this successful combination of adaptability to a changing international environment and a solidaristic welfare system, which protects the citizens from the more brutal consequences of structural change. The recent success of the Danish model of *flexicurity* thus points to a third way between the flexibility often ascribed to a liberal market economy and the social safety nets of the traditional Scandinavian welfare state. However, reality is, as usual, more complex than the portraits of *model societies* found in international discussions of welfare state systems.

The Danish 'miracle' is not just a trivial mixture of demand-driven growth and the hiding of a large share of the population in various welfare programmes. The relative success of the

Danish model in recent years has stimulated ideas about the occurrence of a new employment system model in the form of the so-called ‘golden triangle’, where people are enabled to move between different positions within work, welfare and active labour market programmes. For instance, large number of workers are affected by unemployment every year, but most of them return to employment after a short spell of unemployment. Those who do not quickly go back into employment, are assisted by active labour market programmes, before re-entering a job.

The argument underlying the concept of the golden triangle is that the success of the Danish employment system is due to its unique combination of *flexibility* (measured by a high level of job mobility), *social security* (a generous system of social welfare and unemployment benefits) and *active labour market programmes*, all of which support the ongoing transformation of the economy.

The golden triangle thus depicts Denmark as a kind of *hybrid* employment system. Due to a non-restrictive employment protection legislation, which allows employers to hire and fire workers with short notice, the Danish system has a level of flexibility. At the same time, through its social security system and active labour market programmes, Denmark resembles the other Nordic welfare states in providing a tightly-knit safety net for its citizens.

A first element to explore in the Danish model is job mobility. Compared to the net changes in employment, the underlying mobility of workers between jobs and the level of both job creation and job destruction are surprisingly high. The level of job turnover (job creation and job destruction) is also much higher than the level of yearly net changes in employment levels.

One explanation for the high level of job mobility is the liberal regime of employment protection found in Denmark. One could have assumed that this high level of job mobility and low level of employment protection would lead to a widespread feeling of insecurity among Danish employees. Paradoxically, this is not the case.

A second element is the rather liberal labour legislation with low employment protection legislation. There are at least three explanations for this. One is the predominance of small and medium-sized enterprises (SMEs) in the Danish industrial structure, which implies that strong internal labour markets are less important than in other countries. It is easier to shift from one firm to another due to lower entry barriers at enterprise level. Furthermore, the general improvement in the Danish labour market situation since 1994 may also have influenced the responses. But a final explanation is the relatively generous unemployment benefits paid to unemployed workers from the first day of unemployment and for a considerable period.

A third element is ‘security’ and the generosity of the welfare system. The vast majority of unemployed persons who are members of an unemployment insurance fund receive unemployment benefits calculated at the rate of 90 per cent of their previous income, with a ceiling of 145,000 DKK (19,400 euro) per year. Unemployment benefits may be claimed from the first day of unemployment and for a maximum of four years, including periods of activation.

In the Danish labour market system, the potential disincentives deriving from these high income replacement rates are addressed by requiring the unemployed to be actively seeking jobs and by offering mandatory full-time activation after 12 months of unemployment for adults and six months of unemployment for young unemployed persons under the age of 25. Activation is therefore seen as fulfilling both a qualification and a motivational purpose.

As far as the active labour market policy is concerned, the main pillar to address long-term unemployment was a programme of job offers, training and support to the unemployed to help them start up in self-employment. However, this programme showed relatively poor results, with only a minority of the participants becoming employed in the open labour market. This factor, combined with a sharp new increase in unemployment between 1990 and 1993, increased the political pressure to find new measures to break the vicious circle of long-term unemployment.

The result was a general labour market reform, which came into force in January 1994. It created a more decentralised and individualised system of implementation, designed to fit local and individual needs. It also introduced paid leave arrangements for childcare, education and sabbatical leave to encourage job rotation by allowing employed (and unemployed) persons to take leave while receiving a benefit paid by the state and calculated as a fraction of unemployment benefit.

There are however tensions in the Danish model of flexicurity.

Firstly, the highly dynamic nature of the labour market, involving a large number of shifts between jobs, also implies a continuous testing of the productivity of employees. One outcome of these ongoing selection processes is that some workers are being gradually expelled from the labour market if they fail to meet the productivity criteria set by employers.

Secondly, the high income replacement rates in the Danish unemployment benefit system may increase the risk of financial disincentives, especially for low-income groups. The political pressure to cut active programmes could grow with Denmark's *de facto* need to comply with EMU budget criteria.

Finally, a number of evaluations have shown examples of *creaming effects*, implying that the most resourceful among the unemployed are obtaining the best quality activation offers.

To put it in a nutshell, however, the positive Danish experience points to the importance of the macro-economic environment. Labour market policies cannot generate ordinary jobs by themselves. Sufficient pressure from the demand side is a prerequisite. On the other hand, once the upswing is under way, active labour market policies play an important role in securing the supply of skilled labour and avoiding bottlenecks. Secondly, emphasis should be placed on the way in which the Danish employment system combines a flexible employment relationship with good coverage by the unemployment benefit system and the principle of the right and duty to activation. *(Per Madsen, Copenhagen University)*

Per Madsen concluded that this Danish experience alone in recent years points to the economic feasibility of a 'hybrid employment system'. The Danish model of 'flexicurity' is the outcome of a long historical process involving a series of compromises between the social partners, the evolution of the welfare state and – in recent years – a gradual development of a more active profile of labour market policy. Therefore it could serve as a source of inspiration for new ideas about alternative configurations of flexible labour markets and economic security for the individual rather than as a simple scheme that is ready for immediate export.

## **Integrated approaches to active welfare and employment policies**

<http://www.eurofound.eu.int/working/ditch.pdf>

*John Ditch*, from the University of York, presented research which examined strategies to coordinate labour market activation programmes for recipients of minimum income benefits in all 15 Member States of the European Union. The result is based on national studies which provide information about labour market structures, social assistance schemes and analysis of projects and methods that bring together agencies and actors to achieve coordinated activity in this field. Far from being seen as a drain upon economic progress, social policies are now configured to support economic competitiveness and social cohesion. In particular, the categories of active and passive measures are built into discussion around labour market programmes and social protection systems so that those who are excluded from employment and in receipt of social security benefits are given both support and incentives to seek and retain paid work.

The project is undertaken in more than 40 localities. It investigates the relationship between labour markets and social protection which is built upon an analysis of trends distinguishing between:

- a. a 'dual society' in which a minority of highly qualified people create wealth and income which can then be distributed via transfer payments to those who are non-active. Such a society is, however, prone to inequality, unfulfilled potential, poverty and social exclusion.
- b. an 'active society' in which there is a fairer distribution of original income and a higher level of access to employment. Such a society will be more likely to be socially cohesive, participative and inclusive.

A focus upon the meaning and dynamics of social cohesion has underlined that the concept and status of 'disadvantage' is a complex phenomenon which invariably links the spheres of working and living. (*John Ditch, University of York*)

The research results look for solutions to the challenges faced by policymakers and those responsible for their effective implementation. Conclusions from research to date are that:

- the needs and circumstances of individuals and communities experiencing social exclusion require a response which is comprehensive and integrates social, economic and environmental policies;
- those experiencing the most diverse and complex needs are best helped by high quality, intensive programmes;
- the management and mode of delivery of services is as important as their substantive content;
- strategies to actively involve socially excluded people (and their organisations) in the design, planning, implementation and monitoring of policies and services ensure the development of programmes which are flexible and fit for purpose;
- partnerships for action, cutting across public, private and not-for-profit sectors can facilitate the development and implementation of integrated programmes, optimise the use of resources and coordinate action.

Coordination must be planned and maintained. It is unlikely to occur spontaneously and, when it does, it will be unlikely to survive without resources, both human and financial. There are substantial transaction costs in achieving effective coordination. To put in place the required new physical arrangements, to facilitate the transition process and to support and reinforce the new arrangements will all cost time and money. However, it is clear that organisational approaches do exist which provide opportunities for innovative working as well as enhanced outcomes in terms of employment and the promotion of social inclusion.

## **Discussion**

The discussion of this session brought forward the many different visions and experiences from the participants, who came from different backgrounds.

Regarding the macro-economic presentations, the question was asked as to what would be the end result and the interaction with the actual individual. (*Clare Carroll* (ECOSOC) and *Richard Exell* (TUC))

The suggestion to use quotas in order to get disabled persons back to work, as illustrated in the Dutch example, received some negative response. Quotas are not always as effective as they might seem at first sight. (*Bernard le Marchand* (FEMGE, France) and *Clare Carroll* (ECOSOC))

Also on the Danish model, some questions were asked about: private job training in enterprise and its functioning (*Richard Exell* (TUC)); how they contribute to life-long learning (*Ute Klammer*, researcher Düsseldorf); unavoidable side effects for women in leave periods (*Jørgen Goul Andersen*); and the articulation between the macro-economic level and decentralisation (*Bernard le Marchand* (FEMGE)).

*Robert Anderson* concluded that it was necessary to move from guiding principles and strategies to a better understanding of how these have an impact on administrative organisation and process, on training of professionals and on involvement of the different partners. The implementation of the measures and what they mean must be examined in order to achieve a successful outcome, with particular attention to what they mean to disadvantaged groups and users.

## **Tackling the issues linked to flexibility and mobility**

*Ramòn Peña-Casas* of the Observatoire social européen, defined the topic of this session dealing with the development of so-called 'atypical work'. This was examined from two angles. The first presentation looked at atypical contractual arrangements, including access to and consequences for social security rights. They were also linked to the concept of 'security', from a physical angle, security of employment, of income and of protection. The second presentation tried to redefine the concept of working time, which has changed considerably from the traditional concept based on the idea that one worked one's whole life, from after school till pensionable age.

## The challenges of flexibility for social protection

*Pascale Vielle and Pierre Walthéry*, Institut des Sciences de Travail, UCL, Belgique described the state of play of a study-in-progress on the link between flexibility and social protection, which offers enough protection to give satisfaction to workers.

The great variables of the Fordist context have changed, mainly in the welfare state. There are changes at the level of employment: namely atypical forms of work. There are also changes at the level of social protection: namely pressure on financing and pressure on benefits and new needs.

In the list of atypical forms of work, one could find part-time work, fixed-term contracts, interim work, independent work and, to a lesser extent, telework and work on call. Some reasons for the emergence of these flexible forms of work are demands of employers confronted with a more competitive market, changes in the work itself and an activation policy from the state. This should be viewed in the light of the different models of welfare states (classification developed by Esping-Anderson and later repeated by Ferrera). The same pressures can be translated differently in the different (welfare) states.

Traditional welfare states usually translated ‘security’ through decommodification. The idea was that someone who lost his or her employment had to be able to lead a life with an acceptable living standard and this was mainly done through giving a temporary security through maintenance of the income linked with a typical employment, security foreseen through a kind of employment right.

This was brought into question because of changing circumstances. We come into a phase which could be described as a ‘security of trajectories’. In the fight against social exclusion and poverty, the role of the welfare state is more to get people back to work; which is the reverse of what was done in the decommodification phase. It is clear that specifications of this new compromise need to be fine-tuned in the coming years. (*Pierre Walthéry and Pascale Vielle, Institut de Sciences de Travail, UCL*)

As far as the ambiguous relationship between flexibility and social security is concerned, a few remarks can be made:

- Social protection systems in themselves no longer guarantee a satisfactory level of individual security for the individual flexible worker. It goes together with a security of trajectories. The social security systems however continue to be based on the outdated idea of the male breadwinner with fulltime work. This could create a certain dualism between the ‘normal’ worker and ‘atypical’ worker.
- The increasing insecurity of certain workers does not allow for the development of flexibility in the social protection system. To allow for this flexibility in the social protection system, a minimal level of security should be guaranteed for all.
- Social protection systems could feed individual security to a certain level (e.g. measures for activation of workforce).

The problems are not so much linked to rigidity of social protection systems but rather to individual insecurity (working poor, access to certain services). Problems for those categories of workers could also arise where the link between the (level of) benefits and the (form of) employment contract is too strong, which could be the case in continental systems. On the basis of the principle of equal treatment between men and women, certain measures have been taken to try to resolve the problems of people in atypical forms of work.

Several researchers and policymakers have tried to develop new notions which allow for (re)interpretation of the interaction between security, flexibility and social protection. We could think here of the notion of decent work (ILO), employability, adaptability and quality of work (EU). From the academic world the following concepts could be mentioned: activity contract (Boissonet), professional state (Supiot), transitional market (Schmidt).

The question about substantial minimum guarantees and correlating procedural rules remains to be solved. Maybe social partners could play a role in developing this. What type of well-being should be developed in a welfare state? Amartya Sen has developed this idea, by referring to 'capabilities' (freedoms to accomplish), which is far from the idea of human capital. It is dynamic vision. This idea merits some reflection.

## Discussion

A few questions emerged in debate. *Hedva Sarfati* (ISSA consultant) asked about those excluded from the second pillar schemes. *Marie-Françoise Wilkinson* (EAPN) asked about the possible perverse effects of quantified employment rates. This could give the impression that social protection policy serves at all costs to reach a certain high level of employment. The means might have become an aim.

## The life cycle approach<sup>2</sup>

<http://www.eurofound.eu.int/working/boulin.pdf>

*Jean Boulin*, IRIS, Université Paris Dauphine, France, put the discussion in the context of the changing use of time in society. The relationship between working time (over the life span) and social protection is very important. A new approach is needed. We have to analyse this in a wider context, in which the individual is more free to organise his or her own time over the life span. An equilibrated flexibility is needed for working time too. An individual should be free to choose to work more or less at particular moments of his or her life. There is no longer the traditional continuation of career but careers are interrupted by spells of unemployment, training, parental leave and sabbatical leave (to a lesser extent).

This idea is not new. Already in 1965, Fourastié spoke about '40,000 working hours'. Education and training have an important place, and this has been retained by the Lisbon Summit. In the 1970s, Gosta Rehn conceptualised the idea of a lack of manual workers. He recommended that quality time should be integrated in order to attract these workers: this includes greater flexibility for the worker, the possibility of longer holidays and a general income insurance, funded on rights taken from performed working time. The context has changed since, but the underlying idea of 'saved up time' remains.

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<sup>2</sup> See also Reija Lilja and Ulla Hämäläinen (2001), *Working time preferences at different phases of life*, European Foundation for the Improvement of Living and Working Conditions.



There are greater opportunities now to organise our time. But certain guarantees are still lacking. One could think here of financial recompensation (which is very different throughout the Member States). Another problem is that more flexible contracts do not guarantee the same rights. This could constitute a gender discrimination, as more women tend to accept such contracts.

Regarding financing, a fund should be set up. There should also be a time savings account. This should be reflected in changes in the social protection system. One should be able to combine periods of free/social time with periods of working time. In this free time, there could be more space for voluntary activities. Social time and working time are not opposites but should be assimilated.

## **Discussion**

During the debate, *Hubert Krieger* (Foundation) asked about the concrete implications of new time requirements for employers. He also specified that one should not discuss time over the life course but rather in a life phase perspective, in order to get the balance right between work and personal life in the different phases of life.

## **Thinking ahead: preparing for the future of Europe**

*Eric Verborgh*, Deputy Director of the Foundation, chaired the third working group, giving the floor to those actors who work with flexibility. The speakers came from different backgrounds. *Jean-Michel Belorgey* spoke from the French Conseil d'État. He tried to make the bridge between the academic world and what is happening in reality. He did not speak about the French model; but rather about the French experience in this field. *Kevin O'Kelly*, research manager at the Foundation, gave an insight into a project which has been running for several years, namely PECs (Pacts for Employment and Competitivity). He was followed by *Lorena Ionita*, who spoke on behalf of UNICE, the European employers' organisation, and by *Ivan Kokalov*, who, as representative from the Bulgarian trade unions, enlightened the participants to the perspective of both ETUC, the European trade union organisation, and a candidate country.

### **Can social protection respond to the challenges?**

<http://www.eurofound.eu.int/working/belorgey.pdf>

*Jean-Michel Belorgey*, member of the French Conseil d'État, tackled the question as to whether the French policymakers were able to respond to the challenge which they faced, namely to bring changes in the labour market and social protection in line.

Referring to the previous discussion by Pierre Walthéry and Pascale Vieille, the diagnosis was rather negative, in his opinion. Changes in the social protection system in France had a tendency to deepen rather than level out the segmentation of the labour market in society, as could be seen in increasingly precarious jobs. There was a very good reason for this: namely that social protection systems were 'the annex' of employment systems, and hence depended very much on stability of employment.

It was a given that everyone should be brought (back) into employment. The whole system was also built on the idea that the man was the breadwinner while the woman remained at home. Certain measures that had been taken in the past had rather counterproductive effects. The existing situations had grown out of tradition and the (time) gap between the policymakers and the individuals who are in certain traps in the systems.

New trends in the labour market and in life styles undermined the social protection system, in France built on the continental tradition. The diversification of the forms of employment (atypical forms of work, part-time work, blurring of lines between wage employment and self-employment) leads to a new category which is called the 'working poor'. The system is also undermined by fragmentation of life styles, for example, the changing composition of families. If one combines the two cases, the risk is even greater.

Despite the fact that it is built on good intentions to get people back to work, the unemployment compensation system penalises the most vulnerable. This penalisation can recur in the retirement system. The overall social protection system also encompasses certain threshold effects and poverty traps, and is rather intransparent.

Jean-Michel Belorgey dwelt upon the different roles for work, employment and activity and how a fresh way of thinking could inspire the policymakers into some creativity. The social partners could play an important role in this thinking. Academics feed this debate with ideas concerning the right to employment, the right to income, and a basic income (with its ambiguities). In any case, a wider concept of employment should be used (Rapport Supiot, 1999). The next step is then to look for better coherence between social protection and labour market policies. Social protection should be adapted to job mobility and should be able to respond closely to a diversity of situations.

He concluded by saying that it is necessary to overcome the contradictions. There should be a social protection for all. Transparency and coherence are very important.

### **Learning from the PEC projects: a new role for social dialogue**

<http://www.eurofound.eu.int/working/okelly.pdf>

*Kevin O'Kelly*, research manager at the Foundation recalled the Foundation research on PECs (Pacts for Employment and Competitiveness)<sup>3</sup>.

The early 1990s was marked by a serious economic recession which culminated, in 1993, with a negative growth rate across the EU of -0.5%, while unemployment in 1994 exceeded 11%. This recession resulted in massive economic restructuring with significant reductions in jobs, in particular in the manufacturing industry.

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<sup>3</sup> Projects around PECs are described in Keith Sisson and Antonio Martín Artiles (2000), *Handling restructuring collective agreements on employment and competitiveness*, European Foundation for the Improvement of Living and Working Conditions, and in Jacques Freissinet and Hartmut Seifert (2001), *Negotiating collective agreements on employment and competitiveness*, European Foundation for the Improvement of Living and Working Conditions, and at the website: <http://www.eurofound.eu.int/industrial/pecs.htm>. Thirty case studies can also be consulted on-line at <http://www.eurofound.eu.int/industrial/pecscstudies/sectors.htm>

This coincided with a major transformation of the EU economy in preparation for monetary union and the introduction of the euro. The requirements of the Maastricht criteria added weight to the crucial need for the European economy to be more competitive, particularly for those countries trying to participate in the euro. Because of this, these countries abandoned active policies aimed at economic recovery and, instead, prioritised stability. Using a variety of methods, governments, supported by the national central banks, exerted pressure on labour costs as a means of reducing inflation and budget deficits. They argued that wage restraint and labour market flexibility were prerequisites for competitiveness and thus the best way to safeguard jobs. As a result, a new type of collective agreement emerged that brought about a change of attitudes to the organisation of work, the need for greater workplace flexibility and the protection of employment – pacts for employment and competitiveness (PECs).

Two other important factors that influenced the emergence of PECs came, first, from the policy to break national monopolies in public utilities and other public services, by accelerating the privatisation of these enterprises and agencies. Second, the completion of the internal market in 1993 intensified the policies of transnational companies to achieve ‘optimal location’, thus pitting one subsidiary against another. This had the effect of trade unions and management in subsidiaries working together, to be more efficient and flexible than other locations, to attract internal investment and, consequently, avoid closure.

All of these developments led to an increased inter-dependence between employment legislation, employment policies and collective bargaining. The trend has been for regulation to be more and more delegated to the social partners at EU, national and enterprise levels.

In 1998 the Foundation launched a major investigation into the nature and extent of PECs, with two main objectives:

- to increase awareness and understanding of the contribution of industrial relations initiatives to the improvement of employment and competitiveness;
- to enable policymakers and negotiators to acquire new ideas based on the analysis.

Three reports have been published which explore the key features of PECs at sector and company levels along with the issues raised by their negotiation. Two of the reports draw on a major comparative investigation involving national overviews and some 50 detailed case studies in 11 EU member countries. The third one is based on more than 300 EIROOnline records of agreements running from 1997 until February 1999. All of these reflect the active involvement of the social partners in the setting of goals, the formulation of actions to be taken and assessment of the results through the employment guidelines and national action plans. (*Kevin O’Kelly, research manager at the Foundation*)

Within the context of this EU-level coordination and the national action plans, the PECs project examined issues of how agreement on flexibility, competitiveness and employment can be reached and implemented at the enterprise level. It also looked at how public authorities support and influence this process.

## **The role of the social partners**

<http://www.eurofound.eu.int/working/ionita.pdf>

*Lorena Ionita*, from UNICE, stressed the role that the social partners could play in combining social protection, the labour market and competitiveness. Where framework conditions affecting the business environment are largely determined by public authorities, a specific role can be fulfilled by the social partners. The result of their wage settlements can have a positive (or negative) impact on the overall economic situation. The collective agreements, negotiated at various levels, which form part of Europe's regulatory framework governing working conditions can also have a positive (or negative) effect on labour market flexibility.

In order to underpin a monetary policy directed towards price stability and sound economic policies, it is necessary to ensure that labour costs, and therefore wage settlements, are in line with labour productivity. This is valid both before and after EMU. The main contribution that the social partners can make to combatting unemployment is to pursue policies for moderate pay rises and wage differentiation.

As far as working conditions are concerned, what really matters, both for the competitiveness of individual companies and for the overall performance of the 'system', is to find the right balance between flexibility, which firms need, and security for workers.

The social partners are also actively contributing to the implementation of the employment guidelines at national level and the definition of policy measures at EU and national level.

She concluded that the EU has the policy framework needed to ensure its economic success and especially to ensure that this success results in benefits for European citizens and that adequate help is provided to those who need it. Success depends on the following three factors:

- Acceptance that restructuring is a necessary and continuous process. Economies and societies, as well as their regulatory and policy frameworks, must constantly be ready to adjust to changing conditions and new requirements.
- Recognition that there are no quick solutions. Policies must be applied consistently on a long-term perspective.
- Implementation of sound policies, which deliver results. Durable growth and above-average employment creation depend on virtuous management of economic policies and determined implementation of market-based structural reforms.

## **Central and Eastern European countries: economies in transition**

*Ivan Kokalov*, KNSB, Bulgaria and ETUC, described the implications of the transition from a planned economy to a market economy. One of the main features is the reduction in employment, which was not known before and which became an economic and social problem. Also of concern is employment in the shadow economy. This situation is a serious problem and a challenge for Bulgaria. There continues to be a high level of unemployment, mainly among long-term unemployed people and/or those without unemployment benefit (60% and 70% respectively). More than half are women, one third are young people. This is translated into an

intensification of the social exclusion process, low living standards and poverty as well as serious challenges for the Bulgarian social protection system.

Bulgaria is however trying to change its policies. It is trying to move the emphasis from passive to active policies, by imposing stricter access criteria. The link between unemployment benefits and active policies is strengthened, by offering incentives both to people who are seeking work and those who are willing to hire them. Only a package of measures, in line with those already used in other EU countries, will solve the problem.

## **Discussion**

A lively debate followed on the collaboration between the Member States and the applicant countries, the engagement with international organisations and the possibilities for foreign investment linked with national policy-making. The role and responsibility of each and every actor was highlighted.

## **Conclusion**

In the closing session, *Raymond-Pierre Bodin*, Director of the Foundation put the whole debate in a more political and wider perspective.

### **Work and welfare toward a knowledge-based society**

<http://www.eurofound.eu.int/working/Kikilias.pdf>

*Elias Kikilias*, Greek member of the Employment Committee, alternate member of the Social Protection Committee and chairperson of Human Resources Support S.A., repeated the importance of the link between changes in the labour market and social protection systems. The Social Policy Agenda provided a comprehensive and coherent approach for the EU to confront the new challenges resulting from Europe's transition to a knowledge-based society. The promotion of employment and social protection is central to this approach. This was also called for by successive European Councils, where the emphasis was on the need to raise employment levels and renovate social protection mechanisms.

He made specific reference to the ICT sector, which creates benefits for existing jobs but also technological challenges, even to the point of a possible segregation for those who cannot keep up with the pace of developments.

He set out the wider perspective of the policy challenges for the welfare systems. Tools are needed that can forecast change. One method looks at the life course. In this way, focus can be centred on three welfare areas that may be regarded as basic cornerstones of people's lives and of our welfare construction: childhood, working life and retirement. He went on to examine the first two of these life stages.

The first stage centres on welfare and family. More attention must be paid to child- and mother-friendly policies, including the possibility of combining having paid work with having

children. Hence jobs should be secure and flexible. The quality of jobs is very important. It should be complemented by a parent-friendly policy.

Looking at the stage of working life, a knowledge-based society offers many advantages. In order to avoid possible fall-outs from the ICT society, however, efforts should be made to include those at risk. It is clear that adequate training does not emerge spontaneously from current employment relationships, partly because of the significant short-term costs for both employers and employees. The transition to a more fundamental system of training provision requires new types of policy and effective investment of public resources.

The European Employment Strategy tries to encourage effective action against prolonged unemployment and combating the risk of long-term unemployment. Social and political choices are very important in the determination of the quality of life of men and women.

*Tom Mulherin*, Irish member of the Social Protection Committee and assistant secretary of the Irish Department of Social, Community and Family Affairs, described how the Social Protection Committee dealt with the issue of interactions between the labour market and social protection. The starting point of their work was the Communication from the Commission on a Concerted Strategy for Modernising Social Protection (COM(99)347), adopted on 14 July 1999, and the balanced approach outlined in the Lisbon European Summit (the triangle of economic, employment and social policy).

The task of the Social Protection Committee is a political one as the representatives are collaborators of the different ministers of social affairs and can prepare the ground for future decision-making. It initiated its work around the objective of combatting social exclusion, followed by the theme of safe and sustainable pensions. On these issues, the SPC is closely involved in the application of the open method of coordination as described in the Lisbon Conclusions, namely in developing objectives, which are then followed by a national strategic document (national action plans which describe how Member States tackle the issue) and preparation of the joint Council–Commission analysis. This method seemed to work for the two issues mentioned as it is a very soft approach, with great respect for the subsidiarity principle.

In its day-to-day work, the SPC works with the other committees, the Economic Policy Committee and the Employment Committee. The same approach of collaboration between the different policy spheres should be applied at all levels. They have started working on health care and care for the elderly and will tackle the issue of pay later on in the year. Of course, they first look at what has already been done in the other committees; mainly in the Employment Committee. He felt that the day's discussion could also provide certain ideas, which could be used when discussing the relationship between employment and social protection. Some of the elements were already visible in the discussion of social inclusion and can be found in the Joint Inclusion Report, which is the product of national policies and practices.

*Raymond-Pierre Bodin* closed the seminar by drawing the link between related work of the Foundation around social inclusion, employment pacts, and flexibility and social protection.

He also related it to the theme of the year, namely quality of work<sup>4</sup>. The relationships between employment and social protection are very important dimensions. We may deepen the theme of quality, but a certain basic dimension cannot be forgotten, namely access to employment, both for those who are qualified but also for those who are not qualified. A reconciliation must be made between quality and quantity of jobs.

The Foundation, together with the Spanish Presidency went on to hold a conference<sup>5</sup> on this theme in Toledo on 17 and 18 June 2002: ‘Employment and labour market insertion strategies as a tool for social inclusion’.

The Foundation organised its first Forum<sup>6</sup> on 29 and 30 August 2002 on ‘Europe makes a difference: challenges for the European social model’.

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<sup>4</sup> See the Foundation paper No 1 (Feb 2002) ‘Quality of work and employment in Europe, issues and challenges’.

<sup>5</sup> For more info see <http://www.eurofound.eu.int/living/toledo.htm>.

<sup>6</sup> For more info see [http://www.eurofound.eu.int/about/foundation\\_forum.htm](http://www.eurofound.eu.int/about/foundation_forum.htm).