

# Flexibility and security: national social models in transitional labour markets

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## Summary

Aggregate and individual data are used to test the association between employment performance and different ways of reconciling flexibility and security in European labour markets. Particular use is made of statistics on individuals' labour market transitions as revealed by national labour force surveys. The article compares the performance of three basic forms of labour market institutions: the uncoordinated liberal, or neoliberal one; flexisecurity; and the traditional welfare state model of labour security. The findings confirm the importance of coordinated collective bargaining and of values and trust.

## Résumé

Des données agrégées et individuelles sont utilisées pour tester l'association entre les performances en matière d'emploi et les différentes manières de concilier flexibilité et sécurité sur les marchés européens du travail. Un usage particulier est fait des statistiques sur les transitions des individus sur le marché du travail, telles que les révèlent les études nationales sur la main-d'œuvre. L'article compare les performances des trois formes fondamentales d'institutions du marché du travail: l'approche non coordonnée, libérale ou néolibérale; la flexicurité; le modèle traditionnel de sécurité du travail de l'État-providence. Les résultats confirment l'importance de la négociation collective coordonnée et celle des valeurs et de la confiance.

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## Zusammenfassung

Anhand von aggregierten und individuellen Daten wird der Zusammenhang zwischen der Leistungsfähigkeit europäischer Arbeitsmärkte im Beschäftigungsbereich und verschiedenen Ansätzen zur Vereinbarung von Flexibilität und Sicherheit untersucht. Dabei werden insbesondere statistische Angaben aus nationalen Arbeitskräfteerhebungen zu individuellen Arbeitsmarktübergängen verwendet. In diesem Beitrag werden die Leistungen von drei grundlegenden Formen von Arbeitsmärkten verglichen: das unkoordinierte liberale oder neoliberale Modell, das Flexi-Security-Modell und das traditionelle Modell der Arbeitsplatzsicherheit des Wohlfahrtsstaates. Die Ergebnisse bestätigen, dass koordinierte Tarifverhandlungen sowie Werte und Vertrauen von großer Bedeutung sind.

## Keywords

Flexicurity, transitional labour markets, trust, European social models

The comparative study of national economic performance has long been part of debates over the relationship between flexibility and security in labour markets. National cases are seen as constituting groups of institutions conforming to certain models, and the relative performance of members of different models with regard to important indicators is seen as a way of judging the relative merits of the labour market theories embodied in the models. In this article we examine this issue using two different kinds of evidence: aggregate macro-level national data and individual-level data based on labour force surveys conducted in different countries.

Both discussions are based on the concept of flexicurity, the amalgam of the words flexibility and security coined by Wilthagen and others, to posit a mutual relationship or interplay between flexibility and security (Wilthagen, 1998; Wilthagen and Tros, 2004; Muffels and Wilthagen, 2013). The principal idea is that high levels of flexibility (strict conformity to the market) and employment security (implying protection from the market) can be attained, simultaneously challenging the mainstream economists' view of an inevitable trade-off between the two. This latter view developed in the late 1970s, with the diagnosis that Europe had entered an era of 'Eurosclerosis': sluggishness, low growth, low productivity and low mobility in the labour market (OECD, 1994). As a response, policies emerged for intensified exposure to markets, especially labour markets, particularly as the more liberal US labour markets seemed to be associated with better economic performance, as seen in employment levels (OECD, 2002). The neoclassical economists' view, traditionally promulgated by the OECD, IMF, World Bank, and intermittently by the European Commission, held that if employers were subject to less strict regulations and lower costs in their hiring and firing practices, they would create more employment. Trying to protect jobs by making it difficult for employers to dispose of workers would be self-defeating, as it would lead to a decline in the number of jobs that employers were willing to offer. According to this view, a major target of employment policy was therefore to reduce employment protection laws (EPL) to a minimum. These would be supplemented by 'workfare' policies, for the most part financial incentives to persuade unemployed people to take any potential job on offer by tightening access to benefit and introducing sanctions for those not accepting. This also implied that a flexibility strategy should be accompanied by ungenerous unemployment benefit. There would be active labour market policy (ALMP), though largely restricted to enforcing the workfare incentives, and therefore not too costly. This view was also consistent with the traditional neoclassical approach to labour

markets, assigning only a weak role to trade unions and collective bargaining, as these tended to raise the cost of labour above its market price, thereby further depressing employment.

However, in the course of the 1990s political scientists started to notice that the ‘deregulation versus regulation’ and ‘flexibility versus security’ debate might be positioned and conceptualized too narrowly. Institutional and regulatory labour market parameters were not seen by these observers as mere economic barriers. Instead, certain forms of (re)regulation were considered conducive to socio-economic performance (e.g. Streeck, 1992; Leibfried and Mau, 2008). Social policy was increasingly typified as a ‘production factor’ and social institutions were either perceived as harmless with regard to economic growth, or seen to play a positive role (see Auer, 2010). As Esping-Andersen and Regini (2000: 340) put it in their book with the meaningful title *Why Deregulate Labour Markets?*: ‘Managing unemployment is greatly facilitated when, and if, the social partners are capable of strong coordination and consensus-building.’ It was noticed that small open economies such as Denmark and the Netherlands had recovered from a period in the doldrums and had started to perform very well in both economic and social dimensions. In the case of the Netherlands this recovery was referred to as the ‘Dutch Miracle’ (Visser and Hemerijck, 1997), facilitated by the revival of socio-economic consultation and coordination at both central and industry level, the so-called Dutch Polder Model.

Inspired by Dutch developments and those in other welfare states – in particular Denmark – Wilthagen et al. coined the academic concept of flexicurity (Wilthagen, 1998; Wilthagen and Tros, 2004; Muffels and Wilthagen, 2013). Wilthagen and Rogowski (2002) further argued that flexicurity was a negotiated concept involving all stakeholders and based on ‘reflexive’ law (Luhmann, 1972; Teubner, 1983): regulations that are defined and modified in constant interaction and dialogue with and feedback from actors and day-to-day practices. Secondly, flexicurity was understood and defined as a ‘state of affairs’: a degree of job, employment, income and combination security that (1) facilitates the market careers and biographies of workers with a relatively weak position, and which allows for enduring and high quality market participation and social inclusion, while at the same time providing (2) a degree of numerical (both external and internal), functional and wage flexibility that allows for markets’ (and individual companies’) timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity. In this sense flexicurity is very akin to Streeck’s (2000) ‘competitive solidarity’ concept.

A key feature of the flexicurity definition is the distinction between job and employment security. Job security is conventionally understood as staying in the same job with the same employer for relatively long periods (lifetime employment). Within the flexicurity concept this notion of job security and life-time employment is replaced by the notion of employment security pertaining to the ability to stay in secure employment for one’s entire career but not necessarily in the same job with the same employer. In the modern market people are confronted with more frequent shifts between jobs with the same or a different employer and even between self-employment and salaried work to maintain their current and future employability on the market. Markets have become ‘transitional’, as Guenther Schmid pointed out more than 15 years ago (1995). One core element of flexicurity stems from the expectation that the employability of people can be safeguarded in a flexible and dynamic market through the creation of more and better jobs achieved by the improved matching of people’s skills to jobs due to investments in employability.

The aftermath of the 2008 financial crisis and the sluggishness of economic recovery after the subsequent euro debt crisis created renewed interest at the OECD and IMF in the role of policies and institutions to facilitate growth and reduce unemployment. A reappraisal of the contribution of properly designed institutions and labour market policies occurred, in particular with respect to working time arrangements, training measures and coordination through collective wage

bargaining. These were all seen as factors conducive to structural labour market performance and therefore salient for labour market resilience (e.g. OECD, 2013). The mainstream economic view on strict employment protection for regular workers is that it jeopardizes labour market resilience through reducing mobility and increasing the need for adjustment through the hiring and firing of temporary workers (OECD, 2013). The stricter the employment protection of regular workers, the more leeway the regulations give to employers to hire temporary workers (low protection for non-standard workers), thereby hindering the creation of regular jobs. The positive view on collective bargaining stems from its wage restraint effect increasing the demand for labour and therewith employment (Calmfors, 1993). This shift in perspective among the international institutions as a consequence of the crisis can also be interpreted as a gradual shift away from the liberal model towards the flexicurity model.

The theoretical definition of flexicurity includes various forms of flexibility and security. On the one hand it encompasses external numerical (hiring and firing), internal numerical (working time flexibility) but also internal functional flexibility (the ability swiftly to adapt internal work organization to changes in product demand) and wage flexibility; on the other hand it includes job and employment security but also income security (the ability to stay out of income insecurity or poverty) and combination security (the ability to combine work and care or other activities in private life or the so-called work-life balance).

The flexicurity hypothesis therefore challenges the trade-off assumptions of neoclassical economic theory, arguing instead for a 'positive-sum game'. In the latter, flexibility and security can both be improved and managed mutually, in accordance with the way in which institutions are designed and with sufficient investment being made in social and human capital to warrant high levels of commitment and productivity. The basic assumption of mainstream economists that regulations and institutions tend to distort efficiency is challenged by the contrasting view that institutions, if designed properly, can foster growth instead of endangering it. Social policy has the potential to contribute to enhancing productivity and growth by creating mutual trust, supporting risk-seeking behaviour and improving people-job matching since it allows people to wait for the best job match (see e.g. Gangle, 2006; Sinn, 1995). Similar arguments have been made across a wider range of policies by advocates of the 'social investment welfare state' (Hemerijck, 2013; Morel et al., 2012).

## National comparisons of flexicurity

Flexicurity bridges the two opposite poles of the broad spectrum of social models, i.e. the liberal Anglo-Saxon variant with lean regulation, workfare and 'carrot and stick' unemployment insurance as found in the US and the UK and the Continental variant with tight regulation, low job turnover and generous benefits, though primarily for labour market insiders in secure employment as in Germany and France and notably in southern Europe, e.g. Spain, Italy and Greece. The flexicurity model constitutes the middle road between these two extremes with responsive coordination, a flexible labour market, and risk-sharing social investment strategies for safeguarding transition employment and income security as in Denmark, Norway and Sweden. The various social models can be conceived as a set of rival recipes for the pursuit of high levels of employment and well-being. Both the flexicurity and liberal models agreed that strong EPL did not serve any purpose, possibly retaining workers in their existing jobs though at suboptimal levels of productivity, not encouraging employees to invest in career development or employers to create new jobs, and generally tending to ossify the economy. However, they disagreed substantially on the three other key components of socio-economic policy – whereas liberal regimes

**Table 1.** Three social model types.

	Uncoordinated Liberal Model (ULM)	Flexicurity Model (FLCM)	Classical Security Model (CSM)
Labour market flexibility	<ul style="list-style-type: none"> <li>– Low EPL both for regular and temporary work</li> <li>– Low EPL-CD</li> <li>– High job/LM mobility</li> </ul>	<ul style="list-style-type: none"> <li>– Low EPL gap</li> <li>– Low EPL-CD</li> <li>– High job/LM mobility</li> </ul>	<ul style="list-style-type: none"> <li>– High EPL both for regular and temporary work</li> <li>– High EPL-CD</li> <li>– Low LM mobility</li> </ul>
Income support	<ul style="list-style-type: none"> <li>– Targeted ungenerous benefits</li> <li>– Financial incentives</li> <li>– Tight access/sanctioning</li> <li>– Unemployment Insurance (UI)</li> </ul>	<ul style="list-style-type: none"> <li>– Secure and enabling benefits</li> <li>– Transition income security</li> <li>– Own responsibility</li> <li>– Employment Insurance (EI)</li> </ul>	<ul style="list-style-type: none"> <li>– Universal generous benefits</li> <li>– Income compensation</li> <li>– Lenient access conditions</li> <li>– Minimum income guarantee</li> </ul>
Employment support	<ul style="list-style-type: none"> <li>– Left to the market</li> <li>– Passive LM policies</li> <li>– Wage subsidies</li> </ul>	<ul style="list-style-type: none"> <li>– Social partners' responsibility</li> <li>– Activating – enabling</li> <li>– Training – mediation</li> </ul>	<ul style="list-style-type: none"> <li>– State responsibility</li> <li>– Passive LM policies</li> <li>– Mediation by state</li> </ul>
Coordination	<ul style="list-style-type: none"> <li>– Little coordination</li> <li>– Decentralized bargaining</li> <li>– Little consensus</li> </ul>	<ul style="list-style-type: none"> <li>– Responsive coordination</li> <li>– Social covenants</li> <li>– High consensus</li> </ul>	<ul style="list-style-type: none"> <li>– Collective coordination</li> <li>– Centralized agreements</li> <li>– High consensus</li> </ul>

**Abbreviations:**

CD = high level of protection against Collective Dismissal.

EI = Employment Insurance.

EPL = high level of Employment Protection Legislation; EPL gap = EPL regular – EPL temporary.

LM = Labour Market.

UI = Unemployment Insurance.

sought weak levels of income and employment support, and collective bargaining, flexicurity regimes advocated higher levels of income and employment support, together with coordinated, responsive collective bargaining.

One might set against both these models a hypothetical third one, the presumed principal opponent of neoliberal policy, the classical welfare state operating as a simple security model (the Classical Security Model), with high levels of EPL, generous income and employment support and collective bargaining. These three paradigms are shown in Table 1.

We can make a comparative test of the different theories by seeing which of them, if any, are more associated with high levels of employment and labour market mobility. In the following discussion we shall do this for all EU Member States for which we have sufficient data. This primarily means those states also belonging to the OECD. The reasons for excluding certain EU Member States are purely pragmatic. The OECD collects data on the strength of EPL for its Member States and certain others, though excluding the poorest EU members: Bulgaria, Latvia, Lithuania and Romania. Very small countries – i.e. those with populations under one million, tend to have highly distinctive and specialized economies, and often produce extreme values distorting an overall picture. We have therefore also left out Cyprus, Luxembourg and Malta. Where we use European Union Labour Force Survey (EU-LFS) data, the number of countries has to be limited further to

**Table 2.** Institutional features of European labour markets, 2008.

Country	EPL	EPL REG	EPL TEMP	EPL Gap	EPL CD	URR 5YR	ALMP	CB (UCOV* CENT)
AT	2.41	2.19	2.29	-0.10	3.25	64	0.8	0.92
BE	2.61	1.94	2.67	-0.73	4.13	64	1.5	0.44
CZ	2.32	3	1.71	1.29	2.13	56	0.3	0.11
DE	2.63	2.85	1.96	0.89	3.75	62	0.9	0.30
DK	1.91	1.53	1.79	-0.26	3.13	76	1.9	0.35
EE	2.39	2.27	2.17	0.10	3.25	35	0.2	0.08
ES	3.11	2.38	3.83	-1.45	3.13	47	0.9	0.32
FI	2.29	2.38	2.17	0.21	2.38	70	1	0.36
FR	3	2.6	3.75	-1.15	2.13	60	1.1	0.19
GR	2.97	2.28	3.54	-1.26	3.25	23	0.2	0.22
HU	2.11	1.82	2.08	-0.26	2.88	53	0.6	0.09
IE	1.39	1.67	0.71	0.96	2.38	80	1	0.23
IT	2.58	1.69	2.54	-0.85	4.88	9	0.5	0.27
NL	2.23	2.73	1.42	1.31	3	73	1.2	0.47
NO	2.65	2.2	3	-0.80	2.88	69	0.6	0.38
PL	2.41	2.01	2.33	-0.32	3.63	50	0.7	0.10
PT	2.84	3.51	2.54	0.97	1.88	61	0.7	0.22
SE	2.06	2.72	0.71	2.01	3.75	67	1.1	0.46
SI	2.76	2.98	2.5	0.48	2.88	67	0.5	0.41
SK	2.13	2.45	1.17	1.28	3.75	37	0.3	0.20
UK	1.09	1.17	0.29	0.88	2.88	61	0.4	0.04
EU-21	2.44	2.23	2.29	-0.05	3.32	51.56	0.78	0.24

Notes: URR = Unemployment Pay Replacement Rate.

UCOV\*CENT = Union coverage by degree of bargaining centralization.

those taking part in the surveys. Statistics will be presented for 2008, as this was the most recent year for which EU-LFS data were available at the time we carried out our research. For calculations of EPL, unemployment pay replacement rates and ALMP, we therefore use the OECD's 2008 exercises; for collective bargaining the ICTWSS calculations for 2008–2010 (Visser, 2012), in order to calculate the level of coverage of unions, which is then expressed in relation to the centralization of collective bargaining (UCOV\*CENT); while for all LFS-based data we use the country surveys for which EPL results are available, i.e. for 2008. This means that our data present the state of European labour markets on the eve of the crisis, and are unable to take account of the impact of the crisis itself. Since the crisis is still ongoing, it would be premature to try to find out which of its impacts from 2008 until now are lasting effects and which temporary distortions. We will have to wait until the European economy returns to a certain degree of stability before being able to tell what deeper changes took place, and whether these are the direct consequences of the crisis itself or of public policy changes. Since many of the factors influencing labour market transition patterns are in any case of a long-term nature, the 2008 data provide us with important information on the underlying processes at work in labour markets prior to any major new transformations that the crisis might bring.

For a comparison of the three models we collected empirical evidence on the institutional and outcome indicators shown in Table 3. The new feature involves supplementing the standard outcome indicators with transition outcome (flexibility and security) indicators to capture the dynamics of 'transitional labour markets'.

**Table 3.** Institutional and transition outcome indicators.

	Statistical indicators
Labour market flexibility	EPL (for permanent and temporary workers and for collective dismissals) Job-to-job mobility Wage mobility
Income support	Replacement rate Income transition security Duration of benefits Strictness of access/sanctions*
Employment support	Exit from and re-entry into employment rates Employment transition security Active LMP expenditures as % of GDP
Coordination	Wage bargaining centralization or coordination Union coverage/membership Days lost through strikes per annum*

Note: \* Except for the indicators on sanctions and strike days all indicators are used in the individual data analyses.

The OECD's calculation of EPL has three components: a multiple indicator of legal measures that limit, slow down or prevent an employer's ability to dismiss an individual worker; a multiple indicator of legal measures that impose constraints on the hiring of temporary workers (i.e. employees with time-limited contracts); a further indicator of additional constraints on multiple dismissals or redundancy measures. We shall here use these three indicators plus the combined index that the OECD has constructed to convey the overall level of legal protection of employment in an economy.

The OECD's indicator for unemployment support is also complex. It examines the various forms of unemployment benefit available to workers in various family situations and after various periods of unemployment, and makes a demographically weighted calculation to give an overall number expressing average unemployment support as a percentage of a worker's pay when in work. We will make use of the longer-term five-year measure, which calculates the average level of replacement income over a period of five years including unemployment and social assistance payments.

Spending on employment support or ALMP includes all social expenditure (other than education) aimed at activation, i.e. the improvement of the beneficiaries' prospects of finding gainful employment or otherwise increasing their earnings capacity, including spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. Two variables are relevant for calculating the extent to which collective bargaining might be expected to maximize employment: the degree of coverage, and the extent to which bargaining decisions are coordinated across a national economy. The ICTWSS database includes both these items. By multiplying the coverage level expressed as a percentage of the workforce by the level of coordination (where a score of 1 denotes total coordination and a score of 0 no coordination at all), we can give a composite estimate of the overall extent of coordinated collective bargaining.

**Table 4.** Results of estimations using (binary logistic) regression models on employment status in 21 European countries, EU-LFS 2008.

Models	Institutions	Country models		WR models
		Without controls	With controls	With controls
I	EPL overall	-0.14	-0.13	0.12
II	EPL regular	0.21	0.36*	0.09
III	EPL temporary	-0.19***	-0.28***	-0.09*
IV	EPL CD	-0.04	-0.08	-0.17
V	EPL gap	0.20***	0.30***	0.20***
VI	CB (UCOV*CENT)	0.95**	1.10***	0.43***
VII	ALMP	0.44**	0.56**	-0.11
VIII	URR 5 year	0.01***	0.01***	0.01***
	Corrected for clustering by country	Yes	Yes	Yes
	Welfare regime	No	No	Yes
	Controls	Yes	Yes	Yes
N		2461211	2447129	2447129
R <sup>2</sup>		0.01	0.23	0.23

Notes: All models are estimated with controls for GDP growth last 5 years, age, age squared, gender, foreigner and youth (<35 years).

The welfare regime dummies show negative employment effects for the Eastern, Baltic and Southern regimes and positive effects for the Nordic and Anglophone countries compared to the Continental regime.

\*p < 0.10, \*\*p < 0.05, \*\*\*p < 0.01.

The macro-level measure of employment is the percentage of all persons aged between 15 and 64 who have been in some form of paid work during the year in question, whether part-time or full-time. This translates at individual level into employment status, i.e. employed in paid work or not, part-time or full-time. We use the individual EU-LFS data for 2008 to examine the influence of welfare state institutions on these individual employment opportunities using the internationally standardized ILO definition of employment, while checking the country's demographic and economic conditions.

Table 4 presents the results of testing the neoliberalist claims that employment protection and generous income support in particular distort efficiency and harm employment. Wage bargaining distorts efficiency and therefore employment insofar as it leads to wages above the market wage. Calmfors (1993) argued however that coordination of wages through collective bargaining leads to wage restraint and therefore to higher employment. Because employment opportunities vary greatly over the business cycle, i.e. high in an upturn of the cycle and low in a downturn, we check for differences in macroeconomic conditions (GDP per capita growth over last five years). They also vary in accordance with a population's demographic composition, with the consequence that we controlled for differences defined by age, education level, gender and immigrant status. We ran (binary logistic) regression models showing to what extent the differences in employment chances are related to institutional differences such as the strictness of employment protection for regular and non-regular workers. We ran models with and without these controls and welfare regime. We



took account of the grouping of observations within countries<sup>1</sup>. Our findings show that institutional design greatly influences employment, given its significant effect on an individual's chances of finding employment.

The tests come up with some very interesting findings. The effect of EPL is negative but small whereas the effect of the EPL for regular workers is positive in the model with controls. The effect of EPL is for a similar reason, that is, the lack of training, negative for temporary workers. One possible reason is that employment protection is salient for investment in training, raising productivity and thereby employment. The positive effect of EPL for regular workers becomes larger when account is taken of variations in the business cycle or macroeconomic conditions (GDP per capita growth over last five years) and demographic conditions (age, age squared, gender, education level). Belot et al. (2007) and Cazes et al. (2012) come up with similar findings, showing that employment levels increase in line with protection up to a certain optimal point, after which they decrease. The evidence for the crisis period shows that the stricter overall employment protection is, the slower employment-reducing adjustment to economic shocks is, i.e. labour hoarding.

The effect of EPL becomes however insignificant in the welfare regime models. These show that the effect on employment is positive in some welfare regimes and negative in others, thereby cancelling each other out. The relationship of employment to the EPL gap (i.e. the difference in the strictness of EPL for permanent and temporary workers) is positive as the country models show: the larger the gap, the higher employment. The larger the gap, the more employers will be inclined to hire temporary workers, thereby safeguarding employment levels but reducing stable employment. The effect of the EPL gap is also positive in the regime model. The evidence shows that even before the crisis employment growth in the dual labour markets of the southern European regimes consisted mainly of a growth in non-standard jobs despite the fact that formal regulations for temporary employment were fairly strict. For the same reason the growth in unemployment during the crisis has been highest in these countries, because temporary workers were the first to be laid off.

The OECD has revealed the negative employment effects of a high EPL gap during the post-2008 crisis period (OECD, 2012). The regime model shows that the overall effect of EPL is attributable to a combination of a positive effect of EPL for regular workers, a negative effect for temporary workers and the negative effect of strict provisions for protecting workers against collective dismissals. The latter finding suggests that a lack of adjustment to economic shocks harms employment, thereby supporting the flexicurity claims. Also at odds with the mainstream conjectures are the findings that the average unemployment pay replacement level over a five-year period has a small positive effect on employment even after taking account of the business cycle and demographic controls. This may possibly be associated with the positive effect of unemployment insurance on improving job matching and on stabilizing consumption, supporting the flexicurity claims for secure and enabling benefits. Both ALMP spending and the level of wage bargaining centralization have a positive effect on employment, supporting the OECD findings for the crisis period. The positive effect of ALMP turns negative in the welfare regime model, showing that the effect varies across welfare regimes. The effect is positive in all regimes except eastern European countries where it is very much negative. The effect of ALMP on employment seems very much dependent on the content and design of ALMP in the various countries. Training and working time arrangements appear to have been particularly successful in curtailing unemployment in the recent crisis, particularly in countries with a strong tradition in this field. In other countries, such as

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1 We used robust estimation of the standard errors while correcting for the clustering by country. This procedure provides rather conservative estimates of significance levels.

France, Italy and the Netherlands, reform proposals were launched during the crisis aimed at increasing flexibility through reducing the protection of insiders while improving security through improving the protection of outsiders. Overall, we conclude from these findings that welfare state regimes or social models seem to play a role in the way institutions influence employment performance, but that each regime seeks its own way to tailor its policies in response to the crisis.

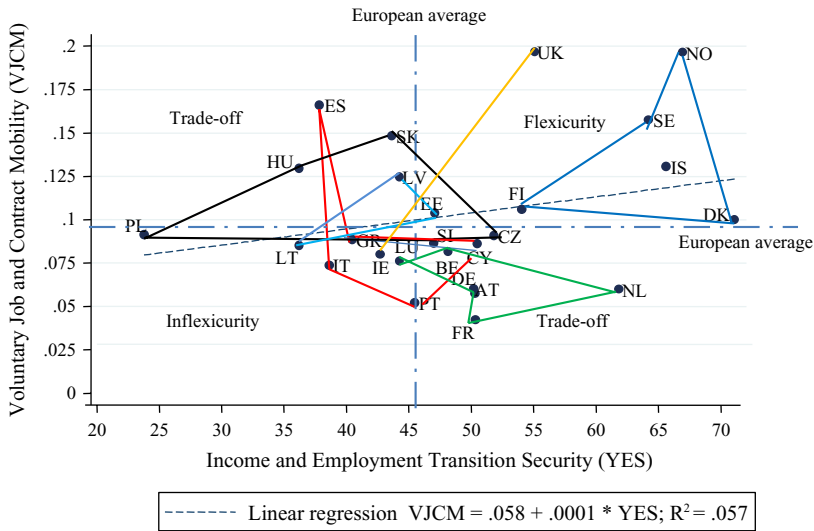
## Labour market transitions

In a recent study for the European Commission, Muffels et al. (2010) proposed four dynamic outcome indicators for measuring the performance of countries on the flexibility–security balance instead of relying on static institutional indicators and measurements of employment levels alone, as is done in most studies. With regard to mobility, transition indicators were defined for the degree of voluntary and involuntary job-to-job mobility, calculated as the percentage of people moving from one job into another annually. Other indicators were defined for numerical flexibility such as the number of workers moving between fixed-term and permanent contracts (contract mobility). The measure indicates to what extent non-standard contracts act as ‘stepping stones’ into standard jobs or as an ‘employment trap’ from which it is hard to escape. For employment security an indicator was defined for the percentage of people moving into a more secure employment status in the following year,<sup>2</sup> and for income security the percentage of people improving their income security, measured by the likelihood of staying out of poverty or moving out of it the year after.<sup>3</sup> The two indicators on job and contract mobility were combined into a Voluntary Job and Contractual Mobility measure (VJCM) and the two indicators on income and employment security into an Income and Employment transition Security measure (YES).<sup>4</sup> Countries’ positions with regard to these indicators indicate how social risk is being managed and how transition flexibility and security are managed within them.

The quantitative data sources used to assess individual transitions were the annual European Statistics on Income and Living Conditions (EU-SILC) for 2005–2007, supplemented by the annual German Socio-Economic Panel (SOEP) for 1984–2007 and the annual British Household Panel Survey for 1991–2007.

The graph in Figure 1 reveals a slightly positive relationship between transition flexibility and transition security ( $R^2 = 0.06$ ), showing that for the countries under scrutiny the contended trade-off between flexibility and security is not necessarily true. Secondly, it shows a classification of countries according to quadrants compared to the European average (the horizontal and vertical lines dividing the figure into quadrants). This classification is similar to that which emerged from the macro-level employment data, except that the individual transition data are more consistent with the findings of much other research (European Commission, 2006; Philips and Eamets, 2007; Muffels, 2008; Auer, 2010), which makes a distinction between the Nordic countries and the rest of north-west (or ‘Continental’) Europe (it must be remembered that the data used here were collected before the 2008 crash). Figure 1 also enables us to consider divergence within each regime, by examining the surface of the plane that arises

- 2 We consider transitions out of employment into unemployment or inactivity as exclusionary transitions into more insecurity and transitions into employment as integrative or more secure transitions. People remaining in non-employment for another period are considered less integrated and more insecure and people remaining in employment more integrated and more secure (see Muffels, 2008).
- 3 All these transition measures are weighted with the share of people aged 16 to 64 in the origin state to arrive at an overall average mobility in society (see Muffels, 2008).
- 4 Since SILC contained no data on temporary jobs for Denmark we were unable to derive a measure for contractual mobility. We therefore assigned the mean of the contract mobility rate for Finland, Sweden and Norway to Denmark in order to include Denmark in the classification.



**Figure 1.** Empirical classification of countries in flexibility and security quadrants.

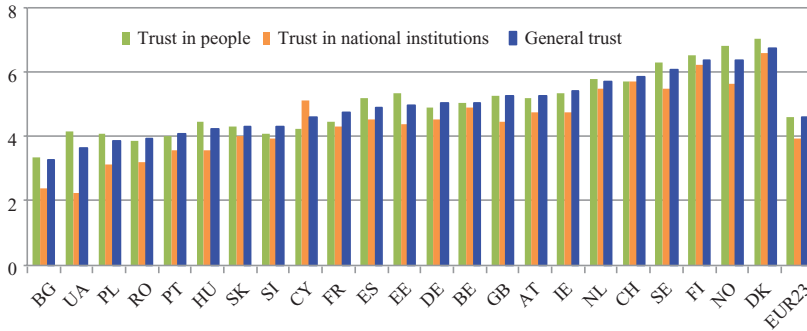
Source: Eurostat, SILC 2005–2007.

when lines connecting the countries in each separate cluster are drawn. Two of the Baltic countries (Estonia and Latvia) were doing better than predicted on voluntary job mobility, whereas the Netherlands performed worse in that respect due to a low level of job and especially upward contractual mobility (from a temporary to an open-ended contract). The Nordic countries were, as predicted, in the flexicurity quadrant (upper right-hand quadrant) together with the UK which, in the years preceding the crash, had been outperforming the other regimes on mobility while paying a price on income security. This was however compensated by high levels of employment transition security. The cases of the UK and Ireland are so far apart from each other that it is difficult to sustain the idea of an Anglophone group, which in any case would have only two members.

Especially in the northern part of the European Union we find a state of affairs, looked at from a dynamic perspective, which might be labelled as a form of mutual risk management. The Continental countries, France, Austria and Germany, were in a trade-off quadrant with low transition flexibility and high transition security, whereas the southern and eastern European countries appeared to be either in ‘inflexicurity’ (low flexibility and low security) or in another, liberal-unregulated, trade-off quadrant with high flexibility but low security. In all three cases mutual risk management had not yet materialized, or risk management was skewed as some risks – for companies or workers – were left relatively unmanaged.

*The role of values and trust*

Given the diversity across Europe, a one-size-fits-all or common policy approach seems very unlikely to be successful. Culture and values also play a role. It has been argued that the flexicurity model is hardly sustainable in countries displaying weak public-spiritedness (or low levels of regulation) because unemployment insurance creates a moral hazard problem that is much harder to overcome in countries where individuals are more prone to cheat over government benefits (Algan and Cahuc, 2006; Burgoon and Dekker, 2010).



**Figure 2.** Various indicators of trust, ESS 2006–2010\* (Nobs = 33626).

Note: \*National ESS data are weighted according to certain elements in the design of the survey and population size.

While the observed dissimilar performance of countries in balancing flexibility and security outcomes might well be related to institutional differences between countries, institutions are designed and implemented according to the dominant social norms and values in society. If the norm for women is to work full-time, the institutions for employment and income support might function properly to get women into full-time work but will be likely to offer poor support to women who prefer caring for children while not working or working part-time. Values therefore have an indirect effect mediated through institutions, but they might also exert a direct effect on integrating or exclusionary transitions through affecting people's decisions. In countries with a stronger work ethos, people can be expected to re-enter employment more quickly after being dismissed than in countries with weaker work values (integrating transition). In countries with higher levels of trust in other people or in national institutions, people can be expected to be more willing to take risks and to change jobs more easily than in countries where people are left more alone. But higher levels of trust might also reflect higher levels of social capital and stronger social networks, as a result of which people are more likely to experience integrating transitions (re-entry) and less likely to experience exclusionary transitions (exit).

Our research on individual-level data enabled us to examine the possible direct impact of values on transitions and to see to what extent they contribute to explaining transnational differences in flexibility-security outcomes. The information on norms and values used were from the two-yearly European Social Survey covering the years 2002–2010 which corresponded well to the 2003–2008 period for the EU-SILC data. In Figure 2 we depict the figures for trust in other people, trust in institutions and general trust in society (mean of trust in people, trust in institutions, altruism, and fairness) for 2006–2010 for 23 European countries including Switzerland (CH). There appears to be a large variation in trust, with the Nordic countries and Switzerland having the highest scores and the eastern and southern European countries the lowest.

It was possible to test scores on these variables against those for the various labour market transitions. The results are reported in detail in Muffels, 2013a. The largest effects were observed for the trust variable: the higher the level of trust in a country, the higher the extent of voluntary job mobility, the higher the mobility from a temporary into a permanent job, and the higher the re-entry from unemployment/inactivity into a permanent job. These findings are in line with our expectations. High levels of trust seem to have negative effects on re-entry into self-employment but positive effects on exit into unemployment/inactivity after stopping one's business.

However, the altruism variable did not predict so well. Societies with higher levels of altruism performed worse in terms of reintegrating people back into a job, and were more likely to have high exit rates from self-employment or a temporary job into non-activity.

Further findings on trust emerge from work on the labour market experience of young people in particular (Muffels, 2013b). Personal and institutional trust appears very much negatively correlated with objective and subjective job and employment insecurity. This confirms the hypothesis that a high level of personal trust is expected to be negatively associated with labour market insecurity and labour market uncertainty. In countries with high average levels of personal and institutional trust, age-related or skill-related job and employment insecurity and uncertainty gaps tend to be smaller. This may especially be the case for youngsters, but also holds for older generations. Muffels (2013b) found that the interaction effects with youth are in all but one model insignificant, showing that personal trust has a similar effect for young people as for older generations.

This research also tested for the interaction effects of personal and institutional trust, finding that welfare regimes are insignificant, with certain exceptions. Workers in the UK and Ireland with high levels of personal trust are more likely to be employed in insecure jobs and also feel more employment-insecure than their counterparts in the Continental countries. The same holds for workers with high levels of personal trust in CEE countries, who are objectively less likely to be employed in insecure jobs but feel more insecure about their employment. The opposite seems to be the case in southern European countries, where the average worker is more likely to be employed in insecure jobs and more pessimistic about job security, though the more he trusts other people the less insecure he feels compared to his fellow workers in Continental countries. In countries with higher average levels of personal trust, workers are less likely to be employed in insecure jobs and also feel less job- and employment-insecure. The interaction effect with youth is significantly negative. Young people with high levels of personal trust are more likely to be employed in secure jobs, whereas in general young people have very high chances of being employed in insecure jobs. In countries with higher average levels of institutional trust the level of objective job insecurity is similar to that in other countries with lower levels of institutional trust whereas the level of subjective job insecurity is lower but unexpectedly the level of subjective employment insecurity higher.

The intriguing question, 'what causes what?', in these interactions between trust levels and employment experience cannot be resolved with the cross-sectional data under scrutiny, though some more insight can be gained from studying interactions of trust with skill levels. When trust is not merely a personality trait but built up over a career and life course we would expect much higher levels of trust among high-skilled job- and employment-secure workers than among low-skilled insecure workers. Muffels (2013b) tested interactions between trust and skill levels among young workers, finding these to be insignificant in the case of objective labour market insecurity, but significant and positive for both the low- and high-skilled in the case of subjective insecurity. The positive interaction effect of a high skill level on subjective insecurity stems from a negative effect of a high skill level and the negative effect of their higher level of trust. Likewise, for the low-skilled the reverse mechanism operates, showing a positive effect for their low skill level and their low level of trust on subjective insecurity. The skill-trust mechanism suppresses the negative effect of trust on subjective insecurity. This seems to suggest that trust is not only a personality trait but also an endowment developed over a career. The causality issue therefore needs further scrutiny with longitudinal data.

## Conclusions

The conclusions of our analyses of individual data help explain many of the relationships and clusters of variables that are generally found in aggregate data analyses. They generally correspond to

each other except maybe for the Continental countries. While much comparative research identifies the 'Continental' category, it often tends to be a residual one, and the differences among its members would benefit from more detailed investigation. It is mainly identified through having had a 'Bismarckian' system of social insurance, but it may be doubted whether this alone is enough to override the many differences existing in other fields of their social policy regimes. This may become increasingly true over time, as the typically Bismarckian features of social insurance are declining in importance (Palier, 2010). The evidence also reveals in the north-western part of the European Union a flexibility-security pattern, measured from a dynamic perspective, which might be labelled a flexicurity-like way of mutual risk management. But in the advanced economies of the Nordic countries, job insecurity risks appear also unequally distributed by skill level, with the low-skilled susceptible to objective and subjective job and employment insecurity. The evidence also highlights the clearly distinct position of eastern European countries notwithstanding their large heterogeneity, which, when compared to southern European countries, show fairly high levels of mobility and flexibility but similarly low transition income and employment security levels, indicating risk management practices skewed especially towards the young and low-skilled workers.

We found evidence of how the macro-institutions considered exert their influence on individuals' labour market transitions and outcomes. In particular, employment protection legislation and especially the gap between the protection for regular and temporary workers (and contrary to mainstream beliefs not the measures of unemployment support), ALMP and collective bargaining create strong barriers to enter or leave employment and to move into a permanent job. ALMP and the level of wage bargaining centralization seem to exert a positive influence on people's employment chances, but do not help much in improving their transition security (to move to more secure jobs). Similarly, recent evidence from the OECD for the crisis period supports the positive effects of collective bargaining coordination on employment (OECD, 2013). For unemployment benefit replacement rates we found evidence showing positive effects on employment chances and movements from a temporary job into a permanent job or into self-employment but also facilitating involuntary job mobility. This might point to the job-matching argument, suggesting that benefits allow jobseekers to wait and look for the best match. It however also has a positive effect on involuntary job mobility (dismissals), suggesting that in countries with strong income protection employers tend to shift the costs of economic adjustment to the government, knowing that employees are well covered.

Our evidence on the impact of values on integrative and exclusionary transitions found significant effects for levels of personal and institutional trust. Societies with high levels of trust seem to allow people to take more risks either to change jobs more easily or to move into self-employment and to be more mobile. By contrast, societies with high levels of altruism seem to have higher levels of exclusionary transitions from the labour market. Many of these findings – especially on the impact of values – need further scrutiny to come to more evaluative conclusions.

The crisis has induced governments to launch reform proposals aimed at addressing the serious challenges they face with respect to the imbalances experienced between flexibility and security and to begin managing the risks faced by companies and/or workers which they had left unresolved beforehand. Although most of the proposed measures are suitable, they sometimes depart from their socio-economic and cultural legacy, and so far with varying levels of success. The main conclusion of our findings is that policies, institutions and culture play a role in explaining the wide diversity in the transition patterns in Europe, and the ways in which countries aim to address the perceived imbalances between flexibility and security.

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