

# Labour market reforms

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European labour markets are often seen as too rigid. Making hiring and firing rules more flexible while at the same time providing a good level of social protection is one of the main challenges of the EU's strategy for economic, social and environmental reform (the "Lisbon Agenda").

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## Latest & next steps:

- **22 Nov. 2006:** Commission started a public consultation on "Adapting labour law to ensure flexibility and security for all" - or 'flexicurity' - which ended in March 2007 ([EurActiv 27/11/06](#))
- **8-9 March 2007:** 'Social summit' debates flexicurity definition ([EurActiv 9/03/07](#))
- **June 2007:** Commission expected to follow up with a Communication on 'flexicurity', to be transmitted for discussion by Council and Parliament.
- **By end 2007:** Commission hopes to define and adopt a common set of principles on 'flexicurity' as a non-binding EU policy objective.

## Policy Summary [Links->](#)

### Background:

The 1997 Luxembourg Jobs Summit launched the idea of a [European Employment Strategy](#). The strategy has three objectives: achieving full employment, increasing productivity and quality at work and promoting cohesion.

In response to the twin challenges of globalisation and demographic changes (ageing population), the European Council (in Lisbon and later in Thessaloniki) has set ambitious employment targets:

- an overall employment rate of 70% in 2010 (67% in 2005);
- a female employment rate of 60% in 2010 (57% in 2005);
- an older workers (55+) employment rate of 50% in 2010.

In 2003, it was clear that the EU was failing to reach its objectives. Therefore, the March 2003

Brussels summit invited the Commission to establish a high-level task force (with former Dutch PM Wim Kok as chairman) to examine the challenges. The [Kok report](#), published in November 2004, inspired the Commission to refocus its Lisbon Strategy on economic growth and jobs.

## Issues:

The Kok report on employment policy underlined the need for **more flexibility** in the labour markets "while providing workers with **appropriate levels of security**". According to the report, flexibility is not only in the interest of employers but also of workers, as they can then more easily combine work with care, education or free-time preferences.

The report urges member states and social partners to:

- review and adjust the level of **flexibility in standard contracts** (terms and conditions of contracts, work organisation and working time, wage-setting mechanisms and mobility of workers);
- introduce **other forms of contracts** to suit the needs of employers and workers;
- remove obstacles for **temporary work agencies**, esp. discrepancies between member states;
- promote use of ICT and more flexible working times as tools to modernise **work organisation**;
- improve attractiveness of **part-time work**;
- adapt **social protection systems** to support workers' mobility

But, at the same time, the report warns against the creation of a "two-tier labour market", with "insiders" benefiting from high levels of employment protection, and "outsiders" recruited under systems with lower protection. Pointing to the Netherlands and Denmark, where so-called flexicurity reforms were introduced in the labour market, the report sees the need for security which goes beyond the traditional employment protection systems. **New forms of security** should not focus on keeping workers in the same job for life, but on "people's ability to remain and progress in the labour market" (decent pay, access to lifelong learning, working conditions, protection against unfair dismissal, support in case of job loss, right to transfer social rights when changing jobs).

In practice, Labour market models in Europe are quite diverse. [André Sapir](#) found that Continental, Mediterranean, Anglo-saxon and Nordic models have a lot in common and this classification has been accepted by most scholars. The [Manpower Employment Outlook](#) found that countries with Nordic models such as Norway and Austria or Anglo-Saxon models such as the UK and Ireland will have far more positive hiring trends during the third quarter of 2006 than Continental and Mediterranean economies such as Germany, France and Italy.

Due to its outstanding success, the Danish **flexicurity** model is much discussed at EU and member states' level. The model was introduced in 1993 by a Social-Democrat government and has resulted in a decline of unemployment from 12% to 5%, while keeping the growth of nominal wage at a steady 3% to 5% per year. It is based on the country's centennial tradition of collective bargaining, but has disposed of some of trade unions' as well as employers' favourites: A **flexible labour market** makes it easy for employers to hire and fire, but **high unemployment benefits** of up to 90% of the latest wage make transition from one job to another easy. The concept of **employment security** thus replaces traditional job security. An **active labour market policy** includes the right and the duty to training and job offers.

Another one of the hot issues at EU level is the role of **temporary work agencies**. In March 2002, the Commission proposed a draft directive regulating temporary work across the Union (the "[Agency Workers' Directive](#)"). The proposal recognised that there is an increasing demand for flexible working arrangements through agencies and that this can be in the employer's as well as the worker's interest. The objective of the proposed directive was to combine high-quality

employment for agency workers with a high level of flexibility for the agencies.

However, the Agency Workers Directive has been blocked in the Council due to strong opposition by countries such as the UK, Germany and Poland. The main argument used by opponents of the directive is that the "qualifying period" rule (temporary workers would get the same pay and benefits as permanent workers after six weeks) would lead to less flexibility, more paperwork and therefore less temporary work.

One of the challenges facing the EU's labour market policies is the result of the 2004 **enlargement to 10 new member states**. According to a [recent report by Daniel Vaughan-Whitehead](#) (ILO) the new member states have introduced much more innovative working arrangements (temporary contracts, use of interim agencies, self-employment and part-time work) than the EU-15 of "old Europe". These American-style labour arrangements are putting pressure on the traditional labour rules in the old member states. Western European trade unions have labelled some of these practices "social dumping".

## Positions:

Not all economists are convinced that labour rigidities are the cause of high unemployment in some EU member states. David R. Howell and his colleagues of the Schwartz Center for Economic Policy Analysis have published several statistical studies indicating that the evidence does not prove that rigid labour market institutions are the main reason for high unemployment. In a [paper published in October 2005](#), Howell states that "labour-market reforms are not the answer". In his view, the complex interplay of country-specific macroeconomic and industrial relations policies with longer term sectoral employment and demographic trends explains much better the differences in performances among EU member states as regards employment policies.

Moreover, governments trying to implement fundamental labour market reforms are often confronted with extensive resistance from unions and citizens. The recent student revolts in France as a reaction to the government's "contrat première embauche (CPE)" (see [Wikipedia](#)) are a good indication of the difficulties facing reformers.

## Links <- Policy Summary

European Union

- Commissioner Vladimir Špidla: [La "flexicrité" est-elle en tête des priorités de la DG Emploi ?](#) (14 September 2005)
- Commission: [Jobs, Jobs, Jobs. Creating more employment in Europe](#) (Report of the Employment Taskforce - Kok report, Nov. 2003)
- DG Employment [Flexicrité: the response to globalisation and demographics by combining flexibility and security](#) (Report of the 20 April 2007 conference on 'flexicrité') [FR] [DE]
- DG Employment: [Employment Taskforce](#) [FR] [DE]
- DG Employment: [European Employment Strategy](#) [FR] [DE]
- DG Employment: [Labour Law and Work Organisation](#) [FR] [DE]
- DG Employment: [Social Agenda 2005-2010](#) [FR] [DE]
- DG Employment: [Employment in Europe 2004](#) [FR] [DE]
- DG Employment: [Industrial relations in Europe 2004 report](#) [FR] [DE]
- Commission: [Employment week 2005](#) (April 2005)
- Eur-Lex: [Proposal for a directive on working conditions for temporary workers](#), COM(2002) 149 final (March 2002) [FR] [DE]
- European Foundation for the improvement of living and working conditions: [Temporary](#)

[agency work in the European Union](#), (2002) [FR]

- European industrial relations observatory online: [Temporary agency work in Europe](#)
- European industrial relations observatory online: [Working time developments 2004](#)

#### Political Groups

- European Liberal Democrats (ELDR) [European Liberal Democrats call for labour market reforms](#)

#### Governments

- France Premier Ministre: [La Bataille pour l'Emploi](#)
- Germany Bundesministerium Wirtschaft und Arbeit (Ministry of Finance and Labour): [Arbeitsmarktreform](#)
- UK Department of Trade and Industry: [Commission proposal for a directive on agency work](#)
- Netherlands Centraal Plan Bureau (CPB): [Can labour market institutions explain unemployment rates in new EU member states?](#) (April 2004)

#### International Organisations

- International Labour organisation (ILO): [Protected mobility for employment and decent work: labour market security in a globalised world](#), (P.Auer, 2005)
- OECD: [Employment Outlook 2004](#) [FR]
- OECD: [Labour market working papers](#)
- OECD: [Reforming European Labour Markets: the unfinished agenda](#), (Presentation Jean-Philippe Cotis, Vienna Economics conference, June 2003)
- International Labour organisation (ILO): [Labour market policies and analysis](#)

#### Industry federations and trade unions



- Manpower: [Employment legislation update](#) (Febr. 2005)
- Manpower: [Employment Outlook Surveys](#)
- Monster International: [EU Employment Index](#)
- CIETT(International Confederation of Temporary Work Businesses [Position paper on Agency Work Directive](#))
- CBI UK: [Parliamentary brief on the agency workers directive](#) ( May 2002)
- UNICE: [Position paper on temporary workers directive](#), (June 2002)
- European Trade Union Confederation (ETUC): [Temporary agency work in the European Union](#)
- Trades Union Congress (TUC): [The EU Temp Trade: Temporary Agency Work across the European Union](#) (17 June 2005)

#### NGOs and Think-Tanks

- Bruegel - [André Sapir: Globalisation and the Reform of European Social Models](#) (Sep. 2005)
- Newschool.edu: ["Labor Market Reforms and Unemployment: Does the Evidence Tell an Orthodox Tale?"](#), (A. Glyn, D. Howell and J. Schmitt, Nov. 2005)
- Newschool.edu: ["Unemployment and Labor Market Institutions: the failure of the empirical case for deregulation"](#), (Dean Baker et al, Sept. 2004)
- Centre for European Policy Studies (CEPS): [Welfare and the Labour Market in the EU](#), (M.L.Michaud, ENEPRI paper, Sept. 2004)
- Böckler Stiftung: [Monitoring flexicurity policies in the EU with dedicated composite indicators](#), (A. Tangian, presentation to DG Employment, March 2005)

- European Policy Centre: ['Flexicurity' on the labour market: are the EU-25 speaking the same language?](#)  (Event report, 14 September 2005)
- European Policy Centre: The Nordic model: a recipe for European success? [Abstract](#)  [Full report](#)   (13 September 2005)
- College of Europe (Marc Vuijlsteke and Floricica Olteanu, editors): [Towards a modernisation of the European Social Model](#)   (19 January 2006)
- European Journal of Social Quality: [From unemployment to flexicurity - opportunities and issues for social quality in the world of work in Europe](#)  , (Nectoux - van der Maesen, 2003)
- German Law Journal: [Agency Work – from Marginalisation towards Acceptance? Agency work in EU Social and Employment Policy and the "implementation" of the draft Directive on Agency work into German law](#)  , (Dagmar Schiek - Oct. 2004)
- Erasmus Research Institute of Management: [Understanding the development of temporary agency work in Europe](#) , (Koene et al - Oct. 2004)
- Institute for the Study of Labor (IZA): [Labour and Product Market Reform: a case for policy complementarity](#) , (Bruno Amable- Donatella Gatti, June 2004)
- Institute for the Study of Labor (IZA): [Structural Labor Market Changes in France](#) , (Marcello Estevão - Nigar Nargis, June 2005)
- Institute for the Study of Labor (IZA): [Part-Time Work in EU Countries: Labour Market Mobility, Entry and Exit](#) , (Buddelmeyer et al, April 2005)
- Centro studi di diritto del lavoro Europeo: [The Regulation of Temporary work in the light of Flexicurity: between soft law and hard law](#)  , (L.Zappala, Working paper, 2003)
- University of Tilburg: [The road towards adaptability, flexibility and security](#)  , (Wilthagen - van Velzen, 2004)
- University of Aalborg: [The flexible Danish labour market - a review](#)  , (Thomas Bedgaard, Flemming Larsen, Per Kongshoj Madsen, April 2005)
- University of Tilburg: [The Concept of "Flexicurity": A new approach to regulating employment and labour markets](#)  , (Wilthagen- Tros, 2003)
- Boeckler Stiftung: [On the path to a concept of 'flexicurity' in Europe](#)  , (Klammer, 2001)
- University of Tilburg: [Flexicurity: A New Paradigm for Labour Market Policy Reform?](#)  , (T. Wilthagen, February 1998)
- Institut Français pour la Recherche sur les Administrations Publiques (IFRAP): [Le "miracle" danois: un modèle pour la France?](#)  (October 2004)
- Flexibility.co.uk: [Resources for new ways of working](#)  (Portal)
- Swiss Institute for International Economics: [Labour Market Policy in Germany: Institutions, Instruments and Reforms since Unification](#) , (C.Wunsch, 2005)

#### Press Dossiers

- Le Monde: [Dossier La Bataille du CPE](#) 
- Nouvel Observateur: [Special CPE](#) 

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