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Hastings, T. [orcid.org/0000-0002-2863-8853](https://orcid.org/0000-0002-2863-8853) and Heyes, J. [orcid.org/0000-0002-6937-3441](https://orcid.org/0000-0002-6937-3441) (2016) *Farewell to flexicurity? Austerity and labour policies in the European Union*. *Economic and Industrial Democracy*. ISSN 0143-831X

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## **Farewell to Flexicurity? Austerity and Labour Policies in the EU**

Thomas Hastings and Jason Heyes

Dr. Thomas M Hastings is Research Associate at the Work, Organisation and Employment Relations Research Centre (WOERRC) at Sheffield University Management School. He is also Associate Fellow at the Sheffield Political Economy Research Institute (SPERI). His research interests include economic geography, labour geography, labour process theory and labour market regulation.

Jason Heyes is Professor of Employment Relations and Director of the Work, Organisation and Employment Relations Research Centre (WOERRC) at Sheffield University Management School. His current research interests include labour market regulation and the changing structure of European labour markets.

## **1. Introduction**

Over the past decade the concept of flexicurity has provided orientation to the European Commission's social policy agenda. Defined by the Commission as an 'integrated strategy to enhance, at the same time, flexibility and security in the labour market' (European Commission, 2007: 10), flexicurity has been presented as an appropriate policy response to economic uncertainty and labour market instabilities stemming from apparently agent-less forces associated with globalisation and technological change. According to the Commission, greater labour market and contractual flexibility are needed if employers are to meet new competitive challenges, but in return workers should be provided with forms of support, such as access to benefits and lifelong learning, that will enable them to make successful transitions between jobs or between unemployment and employment. Weaker job security is thus supposed to be offset by improved security in the labour market (European Commission, 2007). The allocative efficiency of the labour market should be enhanced as a result.

The economic crisis that erupted in 2008 presented the Commission's flexicurity agenda with a substantial challenge. The average unemployment rate across the European Union (EU) increased from 7.1 per cent in 2007 to almost 9 per cent in 2009, although some EU member states witnessed far larger increases (European Commission, 2010: 165). National governments responded to escalating economic difficulties by implementing measures designed to cushion the impact on the labour market and assist workers who lost their jobs. The European Commission (2009) urged EU member states to develop their responses to the crisis in ways that were consistent with the principles associated with its 'flexicurity' concept. Pressures on public finances and the implementation of austerity measures have, however, served to limit freedom for manoeuvre and, as this paper demonstrates, encouraged many member states to seek to increase labour market flexibility (by weakening employment

protection) whilst simultaneously eroding the social protections that might provide a modicum of security.

This paper has three main purposes. Firstly, it examines how responses to the economic crisis have affected national government policies relating to different dimensions of flexicurity. Secondly, it assesses the consequences of these responses for the comparative analysis of EU employment models. Thirdly, it assesses the implications of the findings for the EU's flexicurity agenda. The analysis proceeds in two stages. The first stage involves the use of principal components analysis (PCA) to create dimensions of flexicurity against which different countries are then plotted. As noted by Bertozzi and Bonoli (2009), however, quantitative analyses are insufficient to capture the complexity of the phenomena associated with flexicurity. The second stage of the analysis therefore involves a qualitative account of changes in the social policies of EU member states since the start of the crisis, thereby enabling an explanation of the causes of the changes identified in the first stage. The paper engages with the literature relating to comparative institutional analysis, in particular the 'welfare regimes' and 'varieties of capitalism' analytical frameworks (Esping-Andersen 1999, Hall and Soskice, 2001), which have suggested that there are distinctive approaches to social policy within the EU and that differences are likely to endure over time. Our findings support the view that EU member countries can be clustered on the basis of shared social policy characteristics, but we also show that there are shared social policy tendencies across clusters and that these do not favour flexicurity. In explaining these tendencies, the paper emphasises the deepening of the role of the European Commission and other supranational bodies in relation to labour market policies, particularly in those countries that have sought financial assistance since 2008.

## **2. Flexicurity before and after the start of the crisis**

Interest in flexicurity was initially stimulated by the experiences of Denmark and the Netherlands during the 1990s. Having previously experienced persistently high unemployment, both countries subsequently appeared to enjoy among the lowest unemployment rates in Europe while maintaining relatively generous unemployment benefits. The ostensible cause was an increased emphasis on active labour market measures, combined with a moderate amount of employment protection. Policy makers subsequently treated both countries as examples of ‘good practice’ in relation to labour market policy (Sels and van Hootgem, 2001). The European Commission’s approach to flexicurity, however, reflects the gradual de-emphasising within the EU of concerns relating to social rights in favour of the prioritisation of economic objectives. During the late 1990s, the governments of the UK, Germany, Italy and Spain began to push for the European Commission to promote labour market flexibility and welfare reforms that would place more pressure on the unemployed to seek and accept work (Schweiger, 2014: 31). These policy priorities were reflected in the 2000 Lisbon Strategy and were even more apparent in the 2005 refocusing of the Lisbon Agenda onto jobs and growth. During the first phase of the Lisbon Strategy (2000-2005), the European Commission expressed only limited interest in flexicurity, which it regarded imply as a trade-off between flexicurity and security (Tangian, 2010: 8). Following the re-launch, however, flexicurity achieved prominence in the EU’s social policy agenda and came to be understood as a means of delivering ‘security through flexibility [...] by adapting the labour force to flexible employment, primarily by lifelong learning’ (Tangian, 2010: 8). Globalisation and technological change, it was claimed, had led to job security becoming an outmoded policy objective: policy makers were instead urged to promote ‘employment security’ by improving workers’ ability to make labour market transitions through active labour market policies and lifelong learning opportunities that would enable them to enhance

their ‘employability’ (European Commission, 2007, Muffels et al., 2014). Measures designed to provide workers with a modicum of job security were also regarded as having potentially harmful consequences. The Commission claimed that protections against economic dismissal perpetuated dualism in the labour market, encouraging ‘recourse to a range of temporary contracts with low protection – often held by women and young people – with limited progress into open-ended jobs’ (European Commission, 2007: 12). As Countouris and Freedland (2013) have noted, having promoted the idea of ‘flexibility at the margin’ (i.e. weaker constraints on the use of temporary contracts) during the 1990s, the Commission subsequently argued that the consequences for ‘outsiders’ should be remedied by increasing ‘flexibility at the core’ (via reduced employment protection for workers on standard employment contracts).

The framework within which EU member states are expected to develop policies to secure flexicurity comprises four pillars:

- (i) Flexible and reliable contractual arrangements from the perspective of the employer and the employee, of "insiders" and "outsiders".
- (ii) Comprehensive lifelong learning strategies to ensure the continual adaptability and employability of workers.
- (iii) Effective active labour market policies that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs.
- (iv) Modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility.

These pillars were intended to provide orientation to member states' labour market policies and are supplemented by 'common principles' that comprise policy objectives such as eroding segmentation and promoting gender equality.

Prior to the crisis, it seemed unlikely that there would be a substantial convergence in the social policies of EU member states. Flexicurity measures were to be addressed through the European Employment Strategy with progress occurring through the open method of coordination (OMC), which was supposed to encourage benchmarking and the diffusion of good practices but placed few obligations on national governments to implement reforms (Trubek and Mosher, 2003). The Commission recognised that, because of differences in industrial relations, employment rights and welfare entitlements across the EU, countries would begin their efforts to deliver flexicurity from different 'starting points' (see Muffels et al. 2014). Comparative institutional analyses have provided valuable insights into the nature of these starting points. The analysis of 'welfare regimes' associated with Esping-Andersen (1990, 1999) and the 'varieties of capitalism' analytical framework proposed by Hall and Soskice (2001) have been particularly influential. Esping-Andersen focused on the extent to which welfare states provide social rights and perpetuate class and status differences, comparing three ideal-typical welfare regimes - 'liberal', 'conservative' and social democratic'. Briefly, liberal welfare states are associated with modest and often means-tested state benefits with strict eligibility rules (generally focusing on low-income groups), along with weakly regulated labour markets. Conservative welfare regimes, as exemplified by France, Austria and Germany, are oriented to the preservation of 'traditional' family structures and the needs of (mainly male) workers in regular forms of employment. Coupled with medium-to-strong labour market regulations, 'conservative' regimes are said to maintain a division between 'outsiders' and 'insiders'. The final type of welfare state, associated with

the Scandinavian economies, aims to reduce inequality by limiting the importance of class and occupation in relation to access to the welfare state and supporting high levels of employment through active labour market programmes and lifelong learning (which are core components of flexicurity).

The varieties of capitalism approach, which focuses on differences in the means by which countries coordinate economic activity, offers an alternative typology, distinguishing between 'liberal market economies' (LMEs), such as the USA, which achieve coordination primarily through market mechanisms, and 'coordinated market economies' (CMEs) such as Germany, in which strong institutions play an important role. There is some overlap with Esping-Andersen's clustering of countries, in that LMEs tend to be associated with liberal welfare states whereas CMEs tend to have either conservative or social democratic welfare states (Schröder 2008: 21). However, the VoC approach has tended to treat social policy and the welfare state as part of a set of complementary institutions that enable the coordination of economic activity and underpin distinctive competitive advantages (Thelen 2014: 15).

Researchers have developed the welfare regimes and VoC approaches so as to include southern and Central and Eastern European countries (see Ferrera 1996, King 2007, Molina and Rhodes 2007). There has also been much discussion of the extent to which social policies and institutions within EU member countries have changed over time (for a summary see Thelen 2015: 3-5). Of particular relevance to this paper is evidence that relates to countries associated with different 'welfare regimes' or 'varieties of capitalism' and which indicates that labour institutions have become weaker and policy makers more favourably inclined towards labour market deregulation and work-first employment policies (Author B 2014; Baccaro and Howell, 2015, Bruttel and Sol, 2006, Van Berkel, 2009). As Thelen (2014: 15)



has recently shown, the objectives, forms, processes and consequences of liberalisation have varied within as well as between ‘varieties of capitalism’, reflecting specific interests, cross-class coalitions and political dynamics within individual EU member countries. Her analysis re-establishes the analytical importance of Esping-Andersen’s (1990) insights concerning the ways in which national politics and coalition building influence social policy. However, analysis of liberalisation also needs to take into account supra- and international influences, the importance of which became even more apparent after 2008. Since the start of the economic crisis, social policy has come to be regarded as an economic adjustment mechanism by the European Central Bank (ECB), the Directorate General for Financial and Economic Affairs (DG EcFin) and national economic and finance ministers (Degryse et al., 2013). This has particularly been the case in relation to those countries, such as Spain, Greece and Portugal, which have sought financial assistance in the form of bailouts or intervention in the bond market. The ECB, European Commission and the International Monetary Fund (IMF) have insisted on structural reforms, including labour market reforms, as a condition of support (for a discussion of Spain and Italy, see Meardi, 2014). More generally, a set of instruments has been created to strengthen the power of the European Commission and ECB to influence the social and economic policies of EU member states. The Euro-plus pact and so-called ‘six pack’ have introduced more stringent rules and penalties in relation to fiscal governance while the introduction of the ‘European Semester’ has led to a more detailed and prescriptive approach towards social policy reform (Laulom et al., 2012; Copeland and ter Haar, 2013). EU member states are now expected to respond to ‘country-specific recommendations’ (CSRs) that focus on measures related to growth and competitiveness, including the reform of employment protection legislation, active labour market programmes and unemployment benefits (Degryse et al., 2013; Schömann, 2014), all of which are core elements of the flexicurity agenda.

### **3. Research methods**

In the remaining sections of the paper we examine national policy changes relating to the core pillars of ‘flexicurity’ in the period since 2008 and reflect on the implications for EU social policy and comparative institutional analysis. The task of measuring flexicurity continues to challenge both EU policymakers and social scientists. There is no settled definition of the concept (Burroni and Keune, 2011) and its operationalisation through the selection of concrete indicators therefore remains problematic. The difficulty is compounded by the potentially large number of variables which relate to aspects of labour market policy and performance (Tangian, 2004; Chung, 2012; Manca et al., 2010). Our own analysis draws on the European Commission’s four pillars of flexicurity: that is, the call for flexible and reliable contractual arrangements (FCAs); active labour market policies (ALMPs); modern social security systems (MSS) and indicators of lifelong learning (LLL) (Manca et al., 2010).

A principal components analysis (PCA) was conducted to reduce the data and generate composite components based on groups of inter-correlations between a larger set of variables relating to the flexicurity pillars. As a data reduction technique, the PCA method served to produce a small number of linear combinations based on proven correlations. This process reduced the risk of arbitrary and inaccurate ‘clumping’ of variables which in practice may have little in common<sup>i</sup>. Drawing on a time scale covering the years 2006 to 2011, a total of 133 cases were applied to 10 variable items (Table 1). The start year of 2006 was chosen so as to include data relating to the period immediately prior to the start of the financial crisis. The end data, 2011, was the most recent year for which complete data were available at the time of writing. Supplementing the PCA, and in line with approaches adopted by the EC for measuring flexicurity (EC 2007), a hierarchical cluster analysis was performed based upon component regression scores. This method agglomerated the most similar countries into

larger sized clusters based on dendrogram formations (using Average Linkage Between Groups)<sup>ii</sup>. For the purpose of consistency a cut-off rule (distance value point of 10) was applied to identify clusters in each time period.

#### TABLE 1 ABOUT HERE

In line with previous approaches to measuring flexicurity (Manca et al., 2010, European Commission, 2007), our principal components analysis included a number of variables that relate to different aspects of flexicurity. The strength of EPL is commonly regarded as one indicator of labour market ‘flexibility’ and we therefore included data from the OECD’s indexes covering individual and collective worker protections (for regular contracts) and a further composite measure of job security for temporary workers. Coupled with these variables the proportion of workers employed on fixed-term contracts was included as a further measure of labour market ‘flexibility’. Drawing on Manca et al. (2010) we utilised a combination of national replacement rates (including social assistance and housing benefit), spending on LMP category 8 (income maintenance and support) in PPS per person terms and a variable reflecting the availability of childcare services. Similar measures in PPS terms were included for labour market services and LMP categories 2-7 with a view to capturing investment in active labour market policies in comparable terms between states. Finally two participation measures of lifelong learning (percentage of employed and unemployed enrolled) were included to provide a reflection of lifelong learning in different states.

#### TABLE 2 ABOUT HERE

The PCA was conducted using the oblique rotation technique (direct oblimin) drawing on eigenvalues over Kaiser’s criterion of one for each component. Based on the scree plot, three unambiguous inflexions were identified resulting in three components with strong loadings (considerably higher than the 0.4 cut off suggested by Field 2013). In total these components

explained 74.596% of variance<sup>iii</sup>. As shown in Table 1, Component 1 is based on strong loadings for both passive social security and active investment pillars and accordingly forms a component which reflects both support for income security (i.e. passive benefits which act as a social safety net) and measures that supposedly enhance ‘employment security’ (i.e. active measures facilitating transitions into work; Wilthagen et al., 2003). Component 2 is based on strong loadings for employment protection which correlate with high proportions of workers on temporary contracts, creating a more complex component relating to labour market flexibility. Movement on this axis suggests changes in the strength of EPL, the proportion of workers with temporary contracts or both. Potentially there is a causal relationship between these variables, to the extent that relatively strong EPL for workers with regular contracts relative to those with temporary contracts might encourage employers to employ workers on a temporary basis. Unpicking this dynamic is beyond the scope of this paper, but our analysis in Section 5 emphasises the importance of EPL reforms in explaining changes in countries’ position on the scatterplots.

#### **4. Plotting the Components**

Figures 1 and 2 plot and cluster various EU countries based on component regression scores for component 1 (income and employment security) and component 2 (labour market flexibility). While the third component (lifelong learning) is not included in this representation, all three components informed the cluster analysis on which groupings are based. The clusters therefore provide an indication of the extent of progress towards flexicurity ‘before’ and ‘after’ the financial crash in EU countries, grouped together according to similarities in respect of labour market flexibility and support for measures that are supposed to promote ‘employment security’.

FIGURE 1 ABOUT HERE

Based on the hierarchical cluster analysis (2006) six clusters are evident, as shown in Table 3:

TABLE 3 ABOUT HERE

The pre-crisis plot projection for components 1 and 2 reveals two large clusters: a majority group of relatively high spending Western European states (in terms of active and passive labour market measures) with moderate labour market flexibility. A further cluster of states is associated with Southern (Italy and Greece) and Central and Eastern European states (Slovakia, Hungary and the Czech Republic) with limited participation rates in LLL and low spending on social security. Outside of these groups an Iberian cluster of Spain and Portugal is evident (relatively strong labour market regulation with moderate social security spend), while Poland, the UK and Ireland are outliers on the chart. In Poland's case, this reflects moderate employment protections coupled with low social security spending, while the UK and Ireland have more limited worker protections and moderate spending on social security.

FIGURE 2 ABOUT HERE

The scatterplot for 2011 (Figure 2) demonstrates that there have been adjustments between and within several of the clusters since the start of the crisis. Of the more notable movements, Ireland has shifted to a more central position in the plot, making even more apparent the UK's status as an 'LME outlier'. At the opposite end of the flexibility spectrum, Portugal and Spain have clearly moved towards more liberalised labour markets and occupy a similar coordinate on the plot. Such is the drift towards the centre of the plot (i.e. indicating dilutions of EPL), in 2011 Portugal and Spain technically aligned with former outlier state Poland. Movement is also evident in the Eastern/Southern European cluster (e.g. Slovakia switches place with Hungary) although the cluster as a whole remains intact. An additional cluster distinction is found in Denmark, Sweden and Finland, testament to the continued high rates of lifelong learning participation in these countries in the post-2008 period.

We now develop the discussion by focusing on key policy changes between and within the clusters, outlining the social policy reforms that have given rise to the changes illustrated in Figures 1 and 2. We include in the discussion policy amendments up until the point of writing (early 2015) with a view to assessing the longer term trajectories of regulatory change. We then conclude with a series of observations on the future of EU flexicurity in the post-2008 era.

## **5. Policy responses in the post-2008 landscape**

### Ireland and the UK

The cluster analysis of for 2006 suggests that even before the crisis the claim that Ireland and the UK are sufficiently similar to be part of the same institutional family was problematic. Ireland had relatively weak EPL but also relatively high replacement rates, a combination which bore more resemblance to Denmark than the UK (Crouch, 2012: 105). Since the crisis differences have become more pronounced: Ireland has ‘joined’ the Western European cluster, leaving the UK the only EU country not moored to a social policy cluster. Since 2010, the UK’s coalition government has eroded worker rights by, among other things, increasing the minimum period of service required for unfair dismissal cases and introducing a new fees regime for Employment Tribunals. In contrast, Ireland has increased the terms of severance pay for workers. In relation to social security, however, the direction of change has been similar. On OECD advice (Grubb et al., 2009), Ireland reduced the unemployment benefit rate for young unemployed workers in 2009 and 2010 (and again in from €144 to €100/week for those 25 and under), shortened the maximum claiming period and doubled the number of weeks of worker contributions required for benefit entitlement. Ireland has also

increased the degree of compulsion to engage with employment initiatives such as JobBridge and Gateway, a job activation scheme introduced in 2013, by imposing sanctions on those who refuse jobs (Dukelow, 2015). Similarly, the UK coalition government's WORK programme has intensified the 'welfare-to-work' orientation of employment policy by further compelling benefit recipients to seek employment or face sanctions. Specific measures have included enforced community service for long-term jobseekers as part of the 'Help to Work' program (starting in April 2014) and additional pressures for jobseekers to accept zero-hour contracts under threat of loss of benefits. The government has also extended further the scope of household means-testing, which is a well-established characteristic of the UK's employment and welfare model (Rubery et al., 2009: 67).

With regard to LLL, the UK government has created new barriers to training and education by, for example, axing an educational maintenance allowance that had previously helped young people from low income families to access further education. The UK's previously relatively high participation figure for inactive persons, which had stood at 19% in 2006, fell to 9.6% by 2013 (Eurostat)<sup>iv</sup>. In Ireland, by contrast, participation by inactive persons in LLL increased slightly from 7.8% in 2006 to 10.7% in 2013 (Eurostat). This rise might be partly explained by a relaxation of eligibility rules relating to the Back to Education Allowance (BTEA), which provides funding for a return to full-time education for those in receipt of welfare payments (Fleming and Finnegan, 2011). Contrary to the direction of change in the UK, access to the BTEA allowance was reformed in 2010 to incorporate a larger number of workless benefit claimants.

### Spain and Portugal

The most substantial change over the period 2006-11 is exhibited by Spain and Portugal. Since the start of the financial crisis these countries have come under pressure to reduce employment protections. Memoranda of Understanding (MoUs) for Portugal and Spain set

out specific economic and social policy commitments, with progress to be appraised through quarterly post-programme surveillance. Described by the General Confederation of Portuguese Workers (CGTP) union as ‘opportunistic liberal shock’ treatment, the MoU for Portugal has resulted in weaker severance pay entitlements, more flexible grounds for laying-off workers and reductions in overtime pay. Spain made similar adjustments to employment law, including reductions to the length of notice periods and compensation following unfair dismissal (implemented in 2011). In addition, workers’ rights in relation to collective dismissal were reduced. Austerity has also led to an erosion of the social security pillar of flexicurity. In 2012 the Rajoy government committed to significant benefit adjustment as part of the continued austerity drive, including a lower calculation base for contributory benefits, the removal of social security subsidies and more restricted special benefits for older unemployed workers. Social reform in Portugal has followed a similar pattern, although attempts have been made to extend benefits coverage by lowering contribution requirements and including certain types of self-employed worker (Theodoropoulou, 2015). Reforms in 2012 included reductions to the maximum duration of unemployment benefits, the introduction of a ceiling (€1,048 per month) and a 10% benefit reduction after 6 months of claiming (OECD 2014). These measures, implemented on OECD advice and reflecting commitments made to the Troika, were intended to reduce ‘disincentives’ to work and have resulted in a decline in Portugal’s average replacement rate (according to OECD figures, the NRR fell from 60% in 2008 to 50 in 2012).

A number of ALPMs have been introduced in the Iberian countries, many of them focused on young people. In Spain, measures have included recruitment incentives for firms and youth employment initiatives. Initial crisis measures included social security exemptions to encourage firms to offer open-ended contracts, part-time employment and maintain workers in jobs. Further measures introduced in 2013 and 2014 included amended internship contracts



to facilitate transitions into permanent work and lower social contributions for providing part-time employment for young workers in training (PlanetLabour). In Portugal greater emphasis has been placed on vocational training and internship funding. A new law on the remuneration of in-house internships, passed in 2011, was followed a year later by the adoption of a program to encourage employers to hire young workers by offering reduced social contributions. These measures reflect commitments made in the Portugal's Memorandum of Understanding signed in 2011, in which the government agreed to provide 'appropriate resources to Active Labour Market Policies to improve the employability of the young and disadvantaged categories' and to address vocational education and training gaps.

#### Northern European Cluster

Countries in the Northern European cluster tend to have moderate-to-low EPL scores and moderate-to-high rates of participation in lifelong learning. Spending on social protection and ALMPs tends to be relatively high when compared with other EU member states. A comparison of Figures 1 and 2 suggests that EPL changed little in this cluster after 2008, although some countries have nevertheless introduced important reforms. Sweden, Germany, Denmark, Belgium and the Netherlands implemented reforms aimed at bolstering regulations relating to agency workers and those with fixed term contracts. Changes have been prompted partly by the need to implement the EU Directive on Temporary Agency Work (as in Germany and Denmark). There have also been efforts to encourage employers to make greater use of permanent contracts, notably in the Netherlands, which has imposed a shorter time limit on the use of fixed-term contracts while also reducing severance pay entitlements for workers on regular contracts.

The cluster analysis suggests a very limited amount of change on the social security axis, although social protections have been eroded in certain respects. In Germany, for example,

parental leave benefits have been reduced, transitional supplements for unemployed workers transferring from short to long-term unemployment benefits have been removed and the government has ceased paying the pension contributions of the long-term unemployed and other welfare recipients (Author B, 2013). Change is also reflected in the decline of the average replacement rate in Germany, which fell from 58 percent in 2006 to 53 percent in 2011/2012, a trend which is also apparent in Sweden where the replacement rate fell from 66 per cent in 2006 to 60 percent in 2012. In addition, both Sweden and Germany have tended to spend significantly less on unemployment benefits (as judged in PPS terms per person wanting to work) in the post-crisis era compared to pre 2008 rates and have sought to reduce work ‘discincentives’ (EEO Quarterly January-March 2013). The countries most closely associated with the flexicurity ideal have retained the highest rates of spending on social security in both the post crisis plot (2011) and onwards from this period. However, there has been an increased emphasis on workfare-oriented approaches to benefit entitlements, as seen in Denmark and the Netherlands where post-crisis reform of unemployment insurance have included substantial cuts in the duration of unemployment benefits. This development needs to be understood in terms of a gradual change in emphasis in employment policy that can be traced back to the turn to activation based labour market policies in the 1990s (Kananen, 2012, Kvist and Greve, 2011).

In terms of spending on ALMPs, the Northern European group can be sub-divided into a higher spending Nordic group (Sweden, Denmark, Norway and Finland) and a lower spending group composed of Germany and Austria. However, despite maintaining higher-than-average ALMP spending when compared to other EU member states, Sweden has shifted away from the traditional Keynesian-inspired Rehn-Meidner model of labour market governance developed in the early 1950s, which had prioritised ALMP spending as a means of maintaining high rates of employment and reducing social inequality<sup>v</sup> (Bengtsson 2014). Germany has moved towards an Anglo-Saxon

workfare approach to ALMPs with greater emphasis on public employment services and compulsion, rather than training aimed at enhancing ‘employment security’.

Although participation in lifelong learning has increased slightly in Austria and Germany (e.g. a rate of 7.6% in 2006 in Germany rising to 8.9% in 2013), Denmark and the Netherlands, the archetypal flexicurity countries, have, along with Finland and Sweden, continued to record levels of participation well above those seen in other EU member states. Nevertheless participation rates should not be taken as a proxy for strong government investment in training and lifelong learning programmes. Both Denmark and (in particular) Sweden had been making cuts to government spending on training before the crisis and in both countries subsequent increases in ALMP spending have been associated with a greater reliance on ‘employability’ schemes such as job matching, counselling and ‘coaching’ (see Bengtsson, 2014). In Sweden public training initiatives have become more narrowly focused on providing target groups of unemployed workers with skills that are intended to expedite their transition into employment (Andersson and Warvik, 2012).

#### Southern and Visegrad cluster

This cluster is characterised by relatively low spending on ALMPs and social protection, low participation in lifelong learning and moderate EPL. Since the start of the crisis the countries have implemented EPL reforms and in most cases reduced social protections. The Visegrad countries initially enhanced worker protections for both regular and atypical forms of work. Measures included stronger protections for workers hired via temping agencies (introduced in Slovakia in 2008 and the Czech Republic in 2010) and a decrease in the permitted number of temporary contract renewals allowed by law (Slovakia in 2008). Since 2011, however, protections have been weakened. In Slovakia and the Czech Republic alterations have included extensions to the maximum length of fixed-term contracts and reduced dismissal protection for workers employed on regular contracts. Greece too has increased the maximum

permitted duration of fixed-term contracts and has allowed employers to unilaterally transform full-time jobs into part-time jobs (Planet Labour; ILO 2014: 91). The probation period for workers on permanent contracts has been extended and severance pay and layoff notice periods reduced (in 2012) (Theodoropoulou, 2015). In Italy, a 2012 change to Article 18 of the Workers Statute of 1970, which protects employees in workplaces employing more than 15 people from arbitrary dismissal, has delimited the award of damages and placed restrictions on the forced reinstatement of workers in the case of disciplinary and economic reasons (Baker and McKenzie, 2012).

However, Italy has also strengthened social protections for other groups of workers by extending the coverage of social insurance to apprentices and (often young) workers with fragmented employment histories. The Assicurazione Sociale per l'Impegno (ASPI) formed a new, universal unemployment benefit to support those involuntarily let go from work, while the 'mini-ASPI' has offered greater social protection for those out of work with fragmented work histories and so limited social security investment records (Gasparri, 2013; Planet Labour). Elsewhere in the cluster, however, there has been a tendency to dilute social protections, as reflected in changes in average replacement<sup>vi</sup> rates. Greece, which has been obliged by the Troika to make stringent cuts to social protections, has experienced a substantial fall in its replacement rate, from 27% in 2006 to 21% by 2012. Those workers who are eligible to receive unemployment benefits have experienced a reduction from €460/month pre-crisis to a rate of €360/month in 2014 (Planet Labour; Venieris 2013). There has been an increased emphasis on means testing and tighter limits have been placed on the duration of benefits (Theodoropoulou, 2015). Greece has also implemented wage and pension freezes and, in 2012, a 22% cut in the minimum wage. Hungary, which experienced a replacement rate fall from 47 to 41% between 2006 and 2011, has also cut benefit entitlements (e.g. reduced eligibility for maternity benefit in 2009) and the maximum

duration of unemployment benefits. In contrast, Slovakia experienced a more modest replacement rate reduction (from 40 to 39%) whereas Italy and the Czech Republic experienced slight increases (from 23 to 24% in Italy and 48 to 51% in the Czech Republic). Although the Czech Republic reduced the duration of benefits by one month for each age group between 2008 and 2009 (OECD, 2009), it also experienced a large increase in formerly high-waged benefit claimants over the age of 50 and eligible for the longest period of jobseeker entitlements (EEO Quarterly Reports December 2009).

Spending on ALMPs has remained low in the cluster, with programmes often linked to workfare-style schemes associated with claimant compulsions. In the case of Hungary the duration of unemployment benefits were shortened to three months in 2011, and combined with additional pressures on claimants to accept public work or training programmes under threat of sanction (European Employment Observatory Quarterly Reports: January 2012: 31-32). Although the Visegrad countries have increased spending on ALMPs (in PPS terms, per person wanting to work), spending in Greece and Italy has fallen (DG EMPL, Eurostat; Lodovici and Semenza, 2008; Rhodes 2012; Venieris, 2013; Dolphin et al., 2014). Measures to help disadvantaged groups have been introduced. For example, Italy has introduced tax breaks (in 2010 and 2011) for firms recruiting disadvantaged groups (e.g. jobseekers over 50) and rewards for employment agencies for placing 'jobseekers' while in 2013 the Greek government instigated a national youth action plan with the intention of assisting 350,000 young workers (European Commission, 2013; Bussi and Geyer, 2013). Funding has been provided to support a subsidy to boost youth entrepreneurship and incentives for businesses that recruit young workers with a higher-education degree. Most of the countries have sought to strengthen their apprenticeship programmes (Planet Labour, Author B). Overall, however, participation in lifelong learning remains below the EU average.

## **6. Impact of the reforms**

A detailed examination of the impact of the reforms implemented by EU governments is beyond the scope of this paper. However, two brief remarks can be made. The first is that most of those countries whose labour markets were worst affected by the economic crisis have continued to experience levels of unemployment above those witnessed immediately prior to the crisis. This is particularly true of those countries that experienced financial distress, such as Greece and Spain. The second is that labour market performance in these countries remains poor despite reforms of EPL and social protection. Figures 3 and 4 include countries that have relaxed EPL for regular contracts since the start of the crisis. The evidence suggests that long-term unemployment for young workers (aged 15-24 years) and older workers (aged 25-64 years) remains above pre-crisis levels in most of these countries (although Slovakia already had a substantial problem in this regard) and has generally continued to increase (although the Czech Republic and Portugal have recently shown an improvement in relation to long-term unemployment among young people). Other evidence similarly suggests that once GDP changes are controlled for, national experiences of youth unemployment since the start of the Great Recession have been unrelated to differences in the strictness of EPL (Cazes et al., 2012).

FIGURE 3 ABOUT HERE

FIGURE 4 ABOUT HERE

## **7. Discussion and conclusion**

This paper has suggested that countries within the EU can be grouped on the basis of the support they provide for job security (employment protection) and employment security.

However, we have also emphasised that groupings are not static and that change occurs between them and also within them. Shared tendencies have been apparent across countries in different clusters, particularly since the start of the economic crisis. Reductions in social benefits have occurred in several EU member states, including Ireland, Germany and Hungary (Wagner, 2011), which the comparative institutional analysis literature typically portrays as representing different institutional types. Cuts and greater restrictions in respect of unemployment benefits have been implemented and other benefits, such as family allowances and sickness benefits, have also been reduced (Laulom et al., 2012; Author B, 2013). Tighter constraints on government spending have created a further incentive for governments to focus on supply-side reforms in the hope of stimulating growth in jobs and the economy. Notable in this regard has been the widespread assault on employment protections (Schömann, 2014, Author B, 2014), which has involved reductions in severance pay, longer probation periods and increases in the freedom of employers to set dismissal criteria. Again this development has been seen in countries that are normally associated with different institutional families (e.g. Greece, Ireland, Spain, Portugal, Italy, Romania, Lithuania, Hungary and the UK). We argue that these changes have produced a greater similarity in approaches to the key flexicurity pillars within the EU. This argument does not imply that policies are necessarily converging in terms of their detailed content or results. Our argument is that functions and goals have become more similar (see also Baccaro and Howell 2014). Further research would be required in order to establish whether the trajectories of change we have highlighted are resulting in convergent or divergent outcomes.

The shared tendencies we have demonstrated in this paper are in part a reflection of the heightened pressure for supply side reform created by a tightening of fiscal discipline in the EU and the further subordination of social policy to economic policy, which has been particularly apparent in those countries that have been subject to interventions by the Troika.

However, significant differences have remained in the paths followed by EU countries even in the presence of similar pressures. The differences in responses within clusters and similarities between countries in different clusters therefore point to the limited ability of VoC and related approaches to explain policy changes and responses to the crisis. Clearly institutions have influenced responses (see Leschke and Watt, 2010; Author B, 2013) but the interplay of economic circumstances, domestic politics (including relations between governments, employer bodies and trade unions) and supra- and international forces in the form of the EU institutions, the IMF and the financial markets (Theodoropoulou, 2015, Dukelow, 2015) must also be considered.

The importance of this interplay in explaining differences within countries associated with the same institutional type is clear in relation to France, Spain and Italy, which have been viewed as representatives of a ‘mixed market’ (see, for example, Molina and Rhodes 2007) or ‘state-influenced market’ (Schmidt 2012) variety of capitalism. At the start of the crisis France was more competitive than either Italy or Spain, the impact of the crisis on GDP was weaker, its comparatively more developed welfare state was able to cushion the impact and its political leaders were quick to take remedial action (Schmidt 2012). By contrast, the economies of Italy and Spain had major underlying problems (high public debt in Italy’s case, an unsustainable construction boom and housing bubble in Spain’s) that became critical after the start of the crisis, leading to sovereign debt difficulties and eventually the imposition of stringent austerity measures and pressure from the EU to implement reforms. While ostensibly part of the same institutional family, the situation of France has differed markedly from that of Spain and Italy in that it has experienced a far less severe crisis. However, although Italy and Spain have been under pressure to introduce reforms, they have responded in different ways. Spain has concentrated on liberalising its labour market while Italy has introduced measures to improve protection for non-standard workers and the unemployed.



Picot and Tassinari (2014) argue that the difference can be explained by national political influences: a conservative government presided over reforms in Spain whereas in Italy reforms reflected the priorities of a centre-left party and Italy's trade unions. It should also be borne in mind, however, that although unemployment in Italy has increased incrementally since the start of the crisis, the scale of its problem is dwarfed by that experienced by Spain, which saw far more substantial increases from an earlier stage in the crisis. Spain's focus on labour market liberalisation is therefore a reflection of the seriousness of its unemployment problem. Arguably, the crisis has also been used by Spain's policy makers as an opportunity to push through labour market reforms that have long been deemed necessary (Clasen et al. 2012: 25).

Similar considerations arise in relation to Central Eastern European economies, which are often treated as belonging to a single institutional family. King (2007), for example, refers to CEE countries as 'liberal dependent post-communist' capitalist economies that have weak working-class political mobilisation and rely on foreign investment. Our analysis, however, suggests that these countries do not form a single coherent group when assessed in terms of the flexicurity measures we have employed. Poland stands alone (or latterly with Spain and Portugal) while Slovakia, the Czech Republic and Hungary are placed alongside Greece and Italy. Their experiences of the crisis have also differed: while Hungary experienced a debt crisis and massive economic contraction after 2008 and imposed severe austerity measures, Poland, which had maintained far lower levels of debt in the years before 2008, was relatively untouched by the economic crisis (Orenstein 2013). The crisis has therefore exposed the extent to which the structure of CEE economies and their national political dynamics vary, creating an additional analytical challenge for comparative institutional analysis.

The reframing of the crisis as one associated with excessive levels of public debt, the interventions of the troika and the imposition of stronger fiscal controls have implications for the future of flexicurity. The social policy measures set out in Europe 2020 are weaker in terms of surveillance and enforcement than the new tools for tightening fiscal governance (Copeland and Ter Haar, 2013, De La Porte and Heins, 2015) and austerity has also meant that it has become more difficult to fund measures aimed at enhancing lifelong learning opportunities and improving social cohesion (Heins and de la Porte, 2015, Theodoropoulou, 2015). Social protections, such as unemployment benefits, and employment protections are being simultaneously weakened in many countries. Flexicurity, as initially envisaged by the European Commission, was intended to replace a concern with job security with a focus on measures to enhance employment security. The evidence, however, suggests that the prevailing tendency in the EU is to reduce support for both.

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**Table 1: PCA variables, description and source**

<b>Variable code</b>	<b>Description</b>	<b>Flexicurity element</b>	<b>Source</b>
EPRC_V2	EPL weighted sum of sub-indicators concerning the regulations for individual dismissals (weight of 5/7) and additional provisions for collective dismissals (2/7)	LM Flexibility	OECD
EPT_V1	EPL Version 1 of the indicator for temporary employment measures the strictness of regulation on the use of fixed-term and temporary work agency contracts. It incorporates 6 data items.	LM Flexibility	OECD
LIMDUR1	Employees with a contract of limited duration (annual average): % of total number of employees.	LM Flexibility	Eurostat
Gra2	OECD NRR summary measure of benefit entitlements (including SA and HB).	Social Security	OECD
CHILD1	No formal childcare arrangements.	Social Security	Eurostat
LMPCAT8	LMP Category 8 – PPS terms for those wanting work.	Social Security	Eurostat
LMPCAT2-7	PPS per person wanting to work: Total LMP categories (categories 2-7).	ALMP	Eurostat
LMPCAT1	Labour market services PPS per person wanting to work.	ALMP	Eurostat
Life 3	Lifelong learning participation rates for employed persons (25-64).	LLL	Eurostat
Life6	Lifelong learning participation rates for those unemployed (25-64).	LLL	Eurostat

**Table 2: PCA Pattern Matrix<sup>a</sup>**

	Component		
	1	2	3
Zscore: EPRC_V2: weighted sum of sub-indicators concerning the regulations for individual dismissals (weight of 5/7) and additional provisions for collective dismissals (2/7)	.170	.520	-.535
Zscore: EPT Version 1: indicator for temporary employment measures the strictness of regulation on the use of fixed-term and temporary work agency contracts. It incorporates 6 data items.	.106	.690	-.234
Zscore: Eurostat - employees with a contract of limited duration	-.203	.890	.261
Zscore: OECD NRR summary measure of benefit entitlements (including SA and HB)	.638	.024	.403
Zscore: Labour market services PPS per person wanting to work. Eurostat	.761	-.191	.163
Zscore: PPS per person wanting to work: Total LMP categories (categories 2-7)	.818	.149	.229
Zscore: LMP8 PPS	.911	.152	-.068
Zscore: No formal childcare	-.765	.155	.098
Zscore: Participation rate for employed persons 25-64	.184	-.042	.876
Zscore: Participation rate for unemployed 25-64	.232	.102	.847

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

a. Rotation converged in 17 iterations.



**Table 3: Clusters**

1. <b>‘Anglo-outlier 1’</b> : UK	Highly flexible labour market with moderate spending on social security.
2. <b>‘Anglo-outlier 2’</b> : Ireland	Flexible labour market with high spending on social security
3. <b>‘Northern European cluster’</b> : Denmark, Netherlands, Belgium, Germany, France, Norway, Sweden, Austria and Finland.	Largest cluster with moderate flexibility and moderate-high spending on social security.
4. <b>‘Southern European/Visegrad cluster’</b> : Slovakia, Hungary, Czech Republic, Italy, Greece	Broad range of labour market protections; common low spending on social security.
5. <b>‘Iberian cluster’</b> : Spain and Portugal.	Rigid labour markets with moderate spending on social security.
6. <b>‘Eastern European outlier’</b> : Poland	Rigid labour market with low spending on social security.

Figure 1: 2006 Scatter plot

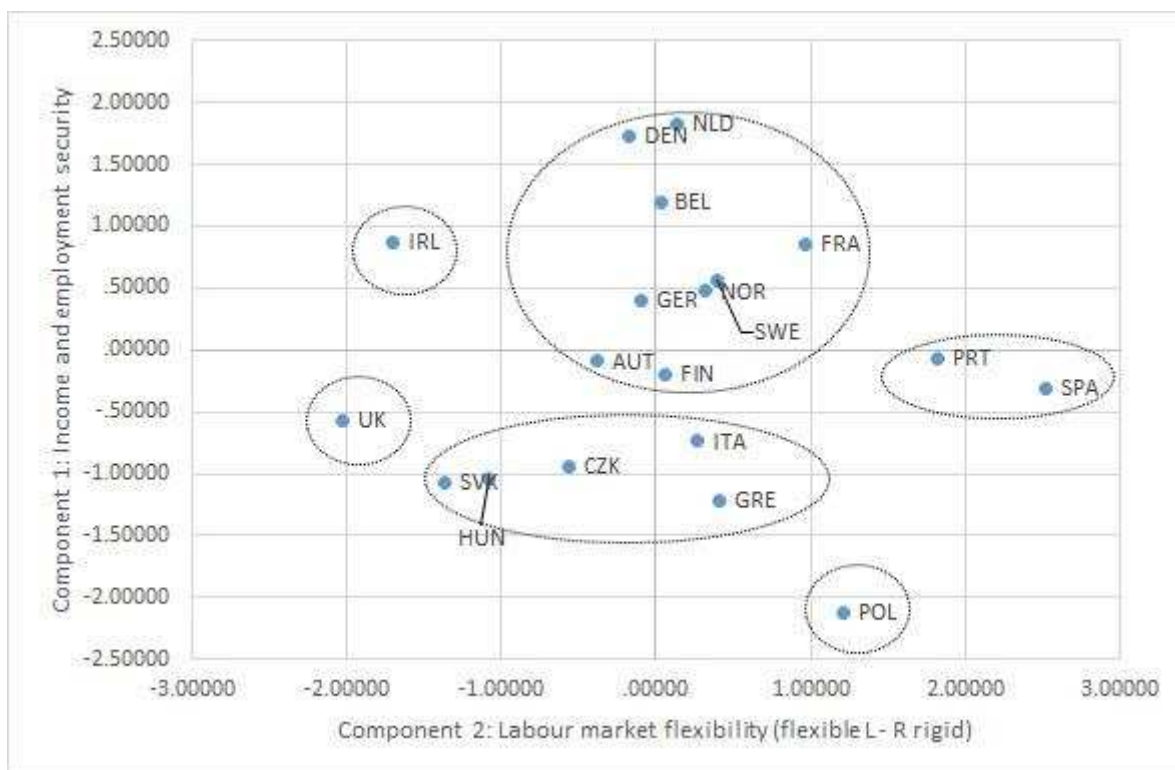
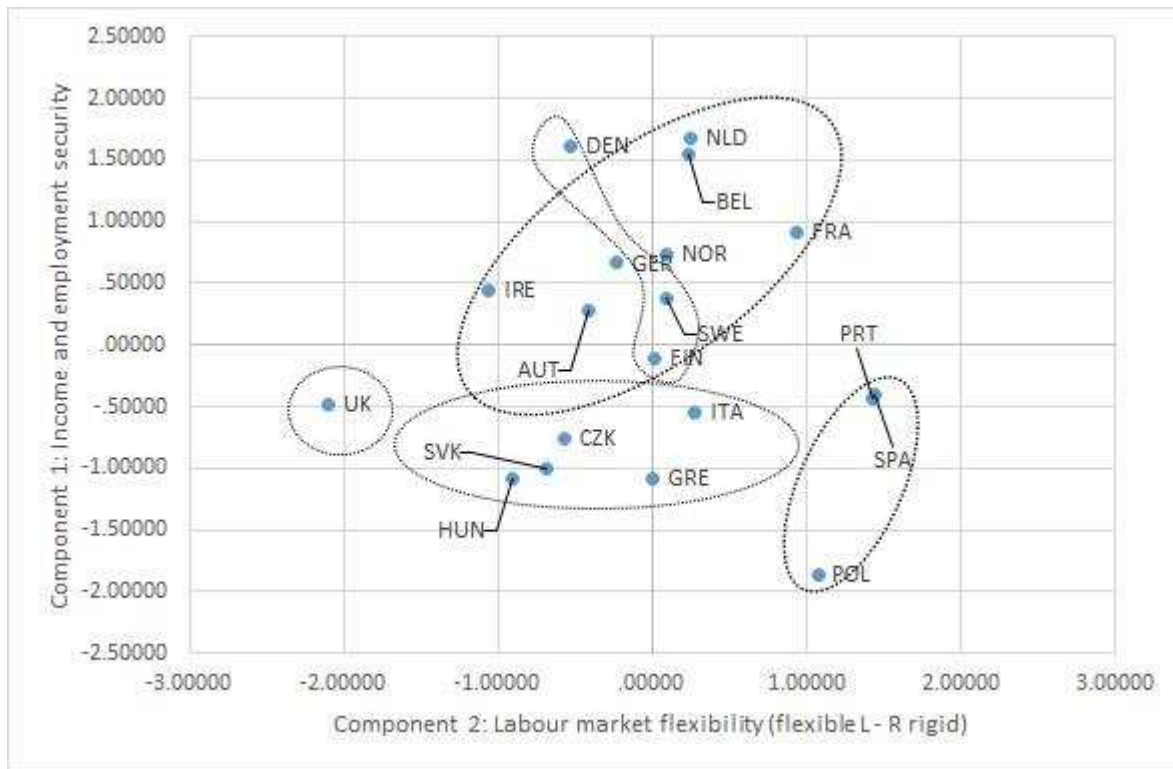
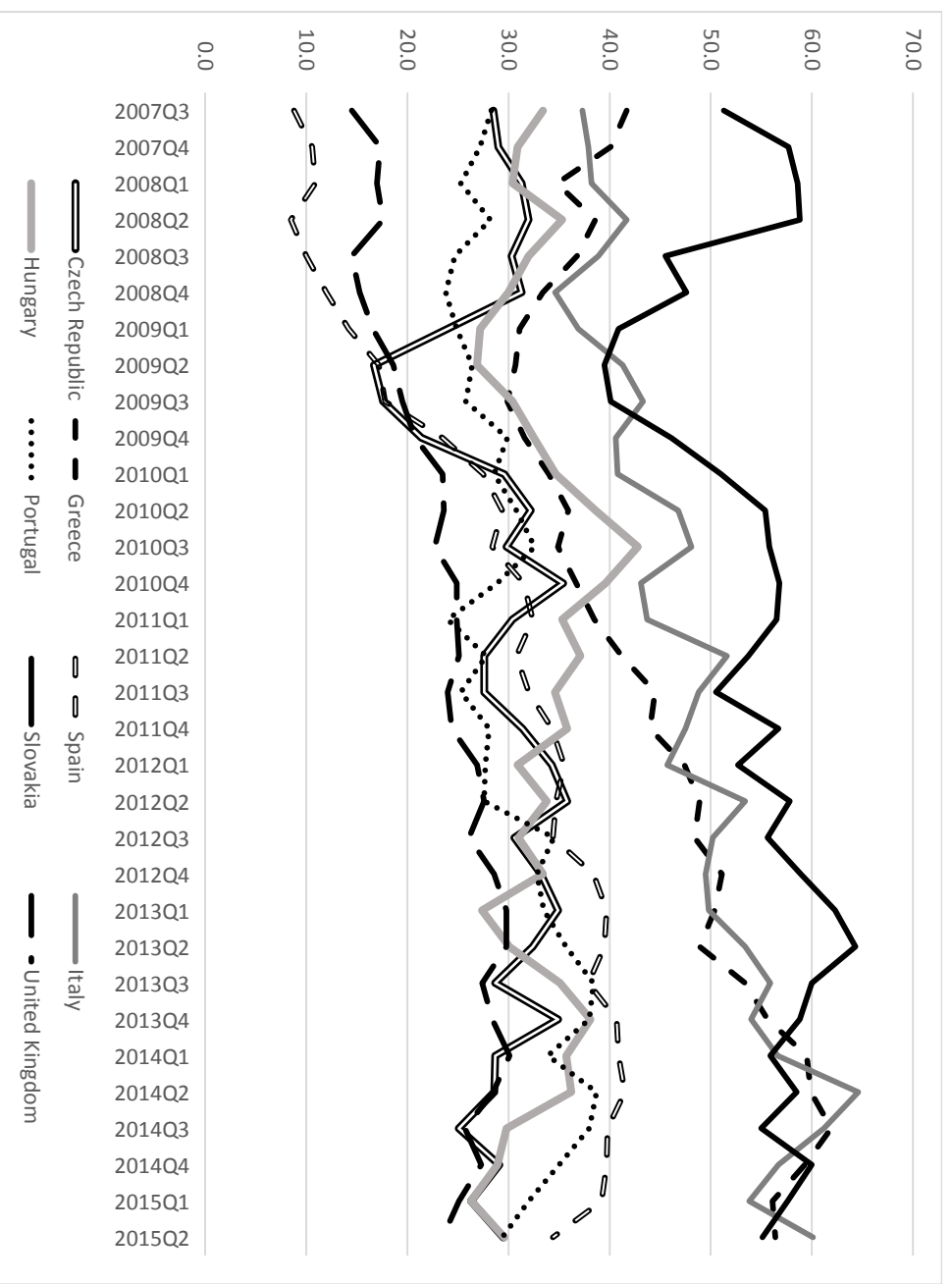


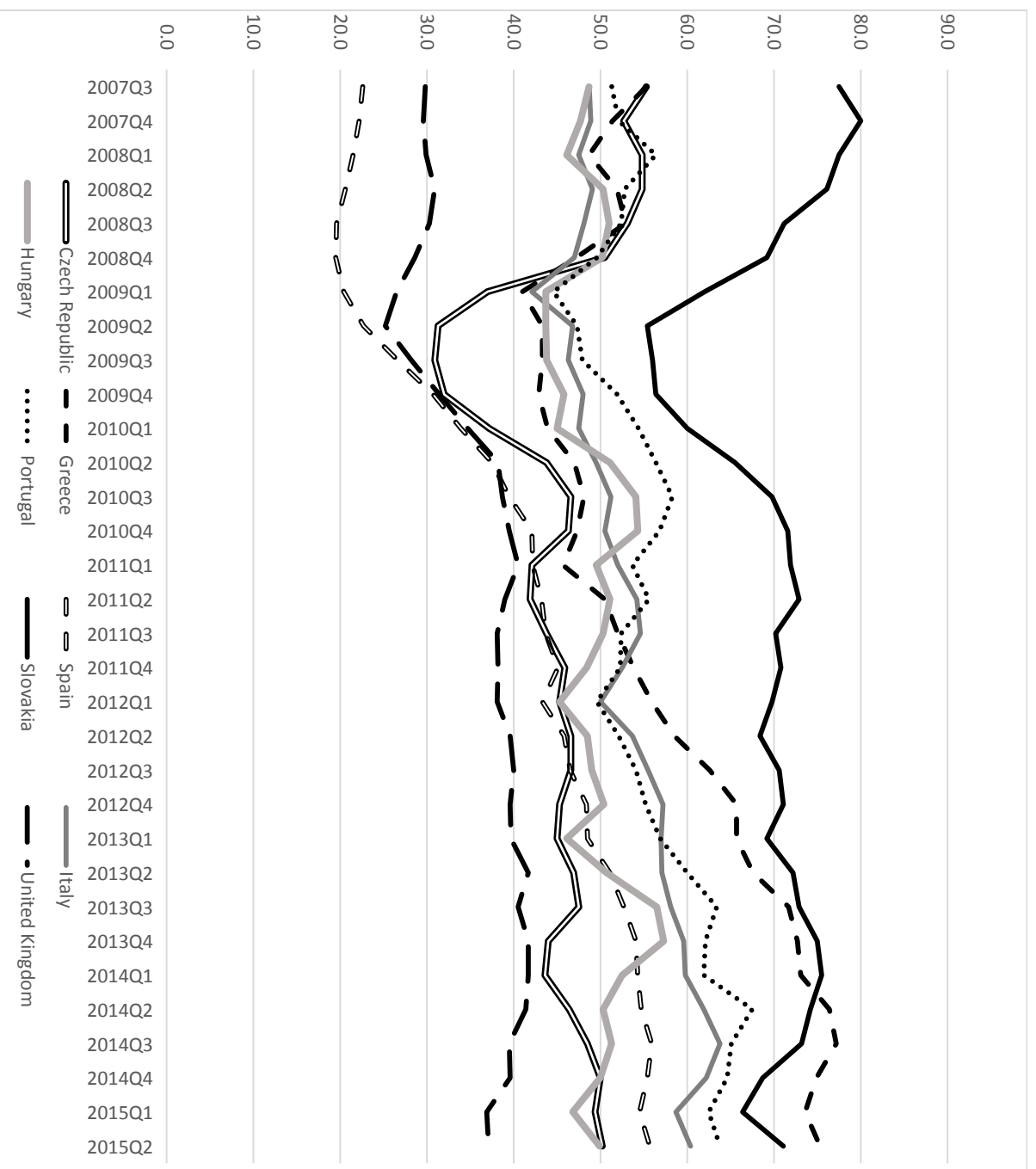
Figure 2: 2011 Scatter plot



**Figure 3: Long-term unemployment, workers aged 15-24 years**



**Figure 4: Long-term unemployment, workers aged 25-64 years**



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<sup>i</sup> We followed Nunnally's (1978) advice that a 10-to-1 ratio of cases-to-item should not be exceeded and only selected variables for which data were available for all years.

<sup>ii</sup> The 'average-linked between groups' method uses an unweighted pair-group method based on arithmetic averages.

<sup>iii</sup> Component 1 accounted for a majority of variance (44.290%); Components 2 and 3 explained 18.878% and 11.429% of variance respectively.

<sup>iv</sup> <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

<sup>v</sup> The falling ALMP spending in Sweden also coincided with higher rates of youth unemployment, which in turn encouraged a loss of confidence in the Social Democratic party in the period before the financial crisis (see Berglund et al 2010).

<sup>vi</sup> All replacement rates cited in this paper are derived from the OECD's database, available at <http://www.oecd.org/social/soc/benefitsandwagescountryspecificinformation.htm>