

Beyond Flexicurity: Active securities for flexible employment relationships¹

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Abstract

'Flexicurity' lacks conceptual rigour leading to its capture by various and even conflicting interests. The aim of this paper, therefore, is to contribute to conceptual clarity by using the theory of transitional labour markets (TLM). In this perspective, active securities – understood as legally guaranteed social rights to participate in decisions about work and employment and to share equally their fruits as well as their risks – are an essential precondition for bringing flexibility and security to a right balance. The paper starts with the normative basis of TLM, which is grounded on four principles of justice and emphasising a gender-sensible life-course perspective. The empirical basis of TLM is set through a comparison of non-standard employment relationships as the alleged core of flexible employment relationships in Europe. From this normative and empirical backdrop, the role of active social securities is derived, grounded on new behavioural economics and the theory of learning by monitoring. The final section exemplifies the potential role of 'active securities' on the basis of two regulatory ideas: rights and obligations to capacity building and coordinated flexibility as functional equivalent to external (numerical) flexibility. The outlook concludes with special reference to lessons for the European Employment Strategy.

Introduction

'Flexicurity', the flagship of the European Employment Strategy, lacks conceptual rigour. It often invites to cheap talk, to opportunistic use for various political interests, to the mistake that flexibility is only in the interest of employers and security only in the interest of employees, or to consider 'good practices' as a menu à la carte. Although these weaknesses may be considered a strength (conceptual openness inviting joint debates and different adaptations), their potential damaging effects pervade. The concept lacks especially a normative background that enables to assess or to properly guide the so-called 'balance' of flexibility and security; a sound empirical background to evaluate the reasons for an alleged increasing demand of flexibility and the related insecurities for people affected by 'flexible' employment relationships; an explicit governance framework that guides the potential win-win-game of 'flexicurity'; and finally a theory of the interrelationship between various forms of flexibility and security.

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The aim of this paper, therefore, is to contribute to conceptual clarity by using the theory of transitional labour markets (TLM). In this perspective, active securities – understood as legally guaranteed social rights to participate in decisions over work and employment and to share equally their fruits as well as their risks – are an essential precondition for bringing flexibility and security to a right balance. These securities are ‘active’ in the sense that they require deliberative interaction (and often negotiation) between individual or collective actors on the labour market.

The paper starts with the normative basis of TLM grounded on four principles of justice and emphasising a gender-sensible life-course perspective (work-life-balance) as the new orientation for labour market and social policy (1). The empirical basis of TLM is set through a comparison of non-standard employment relationships as the alleged core of flexible employment relationships in Europe at two points of time (1998 and 2008) using the European Labour Force Survey (2). From this normative and empirical backdrop, the role of active social security is derived on the basis of the new behavioural theory of intuitive choices and decisions and from the theory of learning by monitoring (3). The final section exemplifies – especially by good practices from the so-called ‘German job miracle’ – the potential role of ‘active securities’ on the basis of two regulatory ideas: rights and obligations to capacity building and coordinated flexibility as functional equivalent to external (numerical) flexibility (4). A summary and outlook conclude with special reference to lessons for the new European Employment Strategy.

1. Normative Foundations of Transitional Labour Market Theory (TLM)

The theory³ of TLM aims in general at a strategy of ex ante risk sharing through empowerment of both employers and employees understood as enhancing their adjustment capacities to the risks related to product or business cycles on the one hand and to life cycles on the other hand. The first element of such an empowerment is to extend the insurance principle beyond the risk of unemployment and to include volatile income risks connected with critical transitions over the life course, for instance, the transition from school to work,

³ By using the term ‘theory’, I am well aware that TLM has not yet reached the status of unified theory. However, as the following might demonstrate, theoretical elements of various strands are existent and inviting the reader to develop further.

from labour market to unpaid family or civil work (or combining both), from full-time to part-time work, from dependent to own account work (self-employment), from work to retirement. This extension of the risk horizon implies not only ‘making work pay’ (the transition from unemployment to – implicitly full-time – employment) but also ‘*making transitions pay*’ (the transition between various employment relationships). A second important element of this empowerment strategy is to enhance the adjustment capacity of both employers and employees not only through investing in human capital but also through investing in the workplace or work environment. This extension of the risk horizon implies to complement the supply strategy of ‘making workers fit for the market’ with the demand strategy of ‘*making the market fit for workers*’.⁴

As a *normative concept*, TLM theory redefines the social dimension of the labour market by focussing on solidarity through ex ante risk sharing instead of only compensating ex post the losers of market dynamics through more or less generous transfers. This ex ante solidarity distinguishes the social market economy from a liberal (‘capitalist’) market economy for which the “social” consists only in charity. As an *analytical concept*, TLM theory redefines the allocation function or matching dimension of the labour market by focussing on sustainable transitions (work-life careers) over the life course instead of optimising only single job-to-job matches. The right to ‘good’ or ‘decent’ work over the life course distinguishes the social market economy from a liberal (‘capitalist’) market economy for which there exists only the right to workfare.

From the *normative perspective*, the core idea of TLM is to empower individuals by enabling them to change from one work situation to another in case of economic and social change or in case of shifting individual preferences. “*Work*”, in the TLM perspective, includes all activities of an obligatory character, independent whether they are contractually paid on the market (employment) or socially imposed but not paid. Since participation in deliberations is an essential ingredient of democracy, even taking part in such processes can be considered as ‘work’ in its widest sense. In fact, historically one of the first measures introducing the work oriented right of deliberative participation was the granting of time-off to employees holding a position of collective responsibility (staff representative) in companies that work with established works councils.

⁴ These slogans have been coined by Bernard Gazier (2007). In this vein see also the recent literature on capacity building, e.g. Deakin/ Supiot (2009).

Thus, TLM also aim at extending options of combining paid and unpaid work (especially care work) according to changing life course needs and preferences. An important side-effect of such empowering would be that people can also take over more risks over the life course enhancing thereby the dynamics of the whole economy. New active labour market policy aims not only at '*freedom from want*', which means at 'negative freedom' in the sense of being free from fighting for the living necessities of food, water, housing and health. The policy aim of TLM goes further by including the '*freedom to act*', which means 'positive freedom' to determine one's own life through the endowment of capabilities.⁵

Four principles of justice underlie this theory.⁶ The first principle is *justice as fairness*. Concerning the goals of policy intervention, the concept of TLM is opposed to the utilitarian assumption of maximising happiness for all. TLM theory rather emphasise the difference principle by John Rawls (2001) according to which inequality is only justified if it improves the lot of the least advantaged. This suggests turning around Tolstoy's famous introductory statement in his novel *Anna Karenina*: "Each unhappy family is unhappy in its own way." There are many ways to happiness, but the main reasons for unhappiness are a few. Maximizing happiness is a moving and often futile target as the booming happiness research shows (Layard 2005, Offer 2006); but reducing unhappiness, especially caused by long-term unemployment and poverty, is something that can be achieved.

The second principle is *justice as solidarity*. TLM theory follows Ronald Dworkin (2000) who discovered an important blind spot in John Rawls theory of justice. The strategy of maximizing welfare of the most disadvantaged is ethically insensitive. People are and have to be concerned about the responsibility of their choices. Rights and obligations have to be balanced. Demanding more individual responsibility, however, requires endowing all individuals with equal opportunities. It also requires ex ante solidarity in the sense of periodically redistributing resources over the life course in favour of equal opportunities. The main reason for such redistribution is the fact that market forces regularly distort distributive justice because much depends – in the market game – on sheer luck.

⁵ The distinction of 'negative' and 'positive' freedom goes back to the social philosopher I. Berlin (2002).

⁶ For an explication at proper length see Schmid (2006) and (2008, pp. 224-231).

However, Dworkin's concept of periodic redistribution and his hypothetical insurance scheme lack direction in terms of substance, which leads to the third principle of *justice as agency*. Following Amartya Sen (2001) and its adaptations (e.g. Salais/ Villeneuve 2004), TLM theory assumes great differences in the individual ability to convert resources for a fulfilling personal life course. Labour market policy, therefore, has to concentrate on capabilities, which include not only individualised endowments of resources but also a supportive economic, social and political infrastructure. In fact, under the agency perspective the focus shifts from the means of living to the actual opportunities a person has (Sen 2009, 253). The civil dialogue in general (free deliberation in media accessible to everybody) and the social dialogue in particular (free deliberation and bargaining / negotiating between social partners/ in industrial relations) are considered as essential elements of such an infrastructure. Institutional capacity building, therefore, is of utmost importance for sustainable development and prosperity for all.

The fourth principle is *justice as inclusion*. This principle relates, on the one hand, to established social communities. Since labour markets inherently tend to social exclusion of the least competitive members, social integration of all willing to participate is a central element of justice as inclusion. The principle of inclusion, however, also encompasses the relationship between established communities. TLM theory assumes an increasing interdependency of local, regional, and national economies. Globalisation (including Europeanization) of labour markets in particular requires a spatial expansion of the principle of social inclusion, in other words, an expansion of risk-sharing communities beyond ethnic, regional and national boundaries (Ferrera 2005). The reason is that open and opening market economies produce winners and losers in an asymmetrical way.⁷

2. Empirical Foundations of Transitional Labour Markets (TLM)

As an *analytical concept*, TLM theory emphasizes the dynamics of labour markets. The analytical focus is on flows between different employment

⁷ To give just one telling example: Thanks to mass production in hog farming (killing the small hog farming), pork prices dropped by about one-fifth in the United States between 1970 and 2004, providing annual savings of about \$29 per U.S. consumer. With the opening of borders, the U.S. giant Smithfield storms into Eastern Europe with the same intent and comparable effects on a global scale. In Romania, the number of hog farmers has declined by 90 percent – to 52,100 in 2007 from 477,030 in 2003. In their place, the company employs or contracts with about 900 people and buys grain from about 100 farmers (International Herald Tribune, May 6, 2009, p. 1).

relationships rather than on stocks, and on transitions over the life course rather than on one way job-to-job changes. Distinction is made between integrative, maintenance and exclusionary transition sequences or job careers (O'Reilly et al. 2004). This concept of TLM has stimulated a rich set of empirical research on life course transitions which cannot be presented here.⁸

TLM, however, emphasise also transitions within employment relationships. The often quoted fact that international research finds no remarkable downward trend in job tenure and no remarkable increase in job-to-job transitions (Auer/ Cazes 2003) is completely in line with the concept of TLM. The reason is that many transitions can be performed within stable employment relationships through internal flexibility as functional equivalent to external flexibility. Instances are the shift from full-time to part-time work due to parental leave or the combination of part-time work with off-the-job training, or internal job rotation through multiple skills or retraining.

Such flexibility within a continuing employment relationship explains for instance the fact that the *nominal employment rate* in Sweden is about 76 per cent, whereas the *effective employment rate* – which means the rate of employed people who actually work in a week – varies between 64 and 68 per cent. The observation of such a (probably increasing) discrepancy between nominal and effective employment rate might even be turned into a normative statement: The more transitions within an employment relationship are allowed or demanded, the higher must be the employment rate to keep the 'machinery' of economic prosperity running. The Lisbon objective of 70 per cent employment rate in 2010, therefore, might even be too modest in the long-run. Some countries therefore, for instance the Netherlands and Sweden, have already set the full employment goal at 80 percent in their national employment programmes.⁹

There is plenty of evidence that the variability of employment relationships is increasing: Non-standard employment relationships are spreading, however at varying degree depending on the national employment system. The following paragraphs shall illustrate this trend by some stylised facts.¹⁰

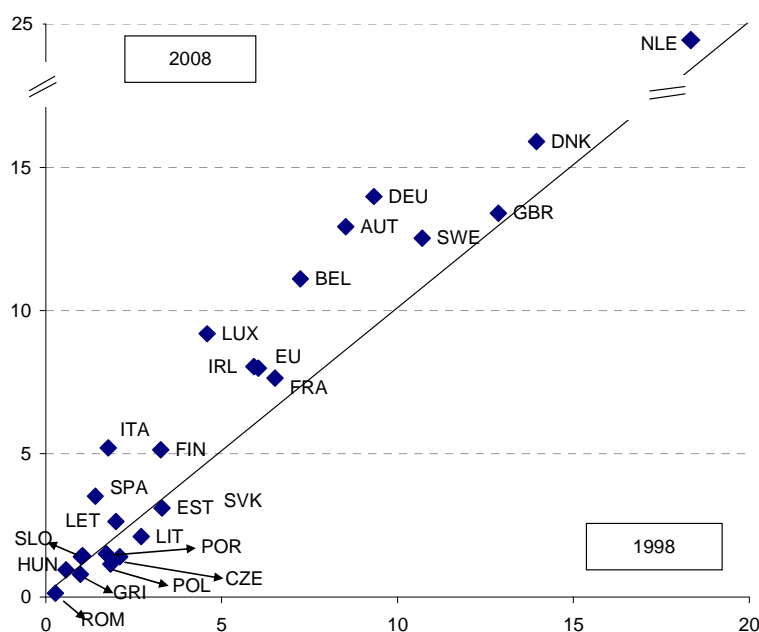
⁸ See, among others, Schmid/ Gazier (2002), Schmid (2006, 2008a), and various contributions in five recently published rich volumes on 'flexicurity' and transitional labour markets by Anxo et al. (2007), Jørgensen/ Madsen (2007), de Koning (2007), Lassnigg et al. (2007) and Muffels (2008).

⁹ Current propositions for 'Europe 2020' followed suit by setting the target to 75 percent.

¹⁰ For more figures and data see Schmid/ Protsch (2009); Schmid (2010).

First, *open-ended part-time contracts* as percent of the working age population vary in Europe between almost zero percent in Romania and 25 percent in the Netherlands (Figure 1). Apart from the new member states, open-ended part-time contracts are on the increase. There is also no point in discussing that part-time concentrates on women and low-wage jobs, and that these jobs are risky in terms of social security in old age. However, open-ended part-time contracts might be considered as element of the new ‘standard employment contract’ to the extent that they substantially contribute to household income through skilled work in the range of 20 to 34 hours and including options to move to full-time work. Transitions from open-ended part-time to full-time, however, are still rare, and robust evidence in a comparative perspective is hard to come by.

Figure 1: Part-time Employees (only with open-ended contracts, and without self-employed) as Percent of Working Age Population (age 15-64), 1998 and 2008

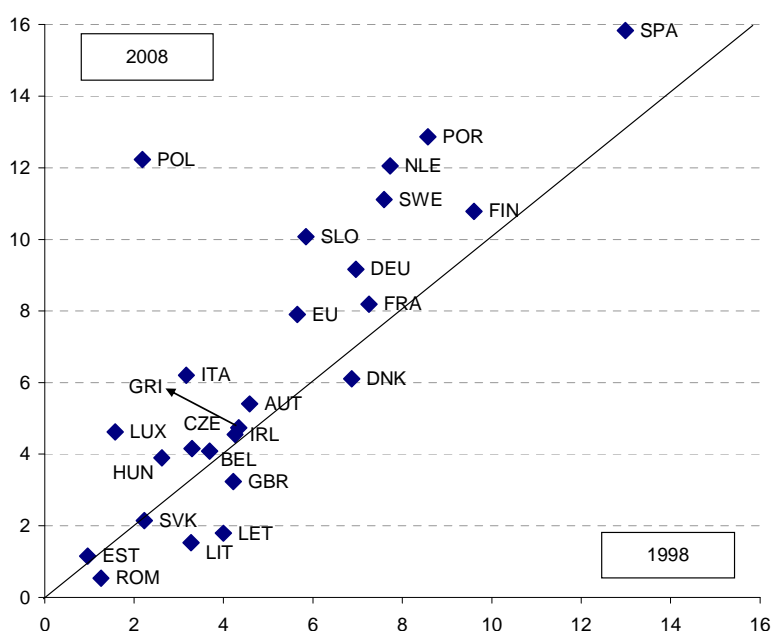


Source: Eurostat, own calculations

Second, fixed-term contracts, including temporary part-timers, as percent of working-age population vary between almost zero percent in Romania and 16 percent in Spain. The dynamic in the last ten years is mixed, but most EU-member states experienced a further increase (Figure 2). Telling examples are the UK and Denmark with a slight decrease. The reason for their deviation from the majority of the ‘old European member states’ is the fact of moderate or low employment

protection. The two countries are therefore counter-examples for the otherwise strong positive correlation between employment protection and fixed-term contracts, especially among men. Furthermore, fixed-term contracts, especially in form of temp-agency work, is concentrated among young adults and often combined with low skills and low wages. Many make the transition to open-ended contracts, but also many get stuck and become members of the new precariat. Again: good and actual comparative data on transition rates are missing.¹¹

Figure 2: Temporary Employees (including part-timers) as Percent of Working Age population (15-64 years), 1998 and 2008



Source: Eurostat, own calculations

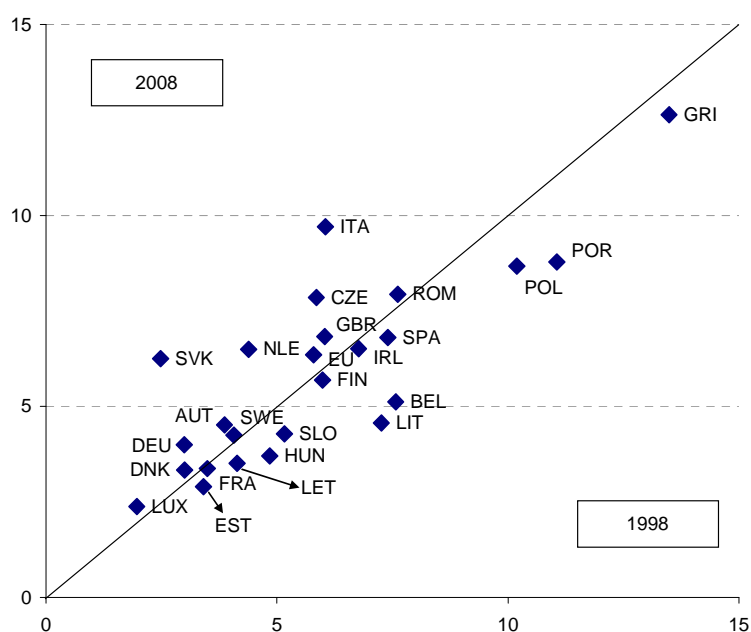
However, two overall conclusions seem to be uncontested. The higher the share of temporary contracts, the higher the unemployment elasticity (and therefore the unemployment risk) to cyclical variations of demand, a fact well documented by comparing – for instance – the unemployment performance of Spain (drastic increase) and France (moderate increase) during the current crisis (Bentolila et al

¹¹ Some figures based on the European Community Household Panel (ECHP) for the period 1994-2001 can be found in Klammer et al. (2008); Leschke (2008) provided an excellent four country study on non-standard employment (Denmark, Germany, UK and Spain) based on the same data source. Statistical monitoring of transitions is still a desideratum, both at national and international level.

2010).¹² Finally, the increasing concentration of fixed-term contracts on young adults raises serious concerns about how these young people might be able to plan their life (including family formation and long-term careers) in the future.

Third, the number of self-employed – measured here as own account workers without additional employees and working without an employment contract – as percent of working-age population, lies between two percent in Luxemburg and 13 percent in Greece (Figure 3).

Figure 3: Self-employed (full-time or part time, own-account workers) as Percent of Working Age Population (15-64 years), 1998 and 2008



Source: Eurostat, own calculations

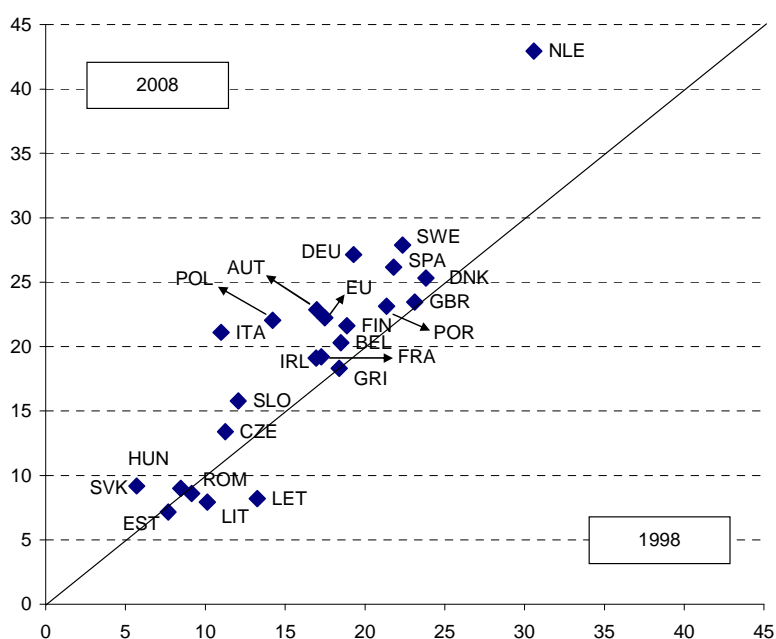
There is no clear pattern of the dynamic. In many countries, self-employment is falling mainly due to the decline of traditional small farming, in some countries self-employment is still increasing in the so called creative sector or due to

¹² The authors argue that labour market institutions in the two economies are rather similar, except for the larger gap between dismissal costs of workers with permanent and temporary contracts in Spain, which lead to huge flows of temporary workers out of and into unemployment. The authors estimate in a counterfactual scenario that more than one half of the increase in the unemployment rate (about 6 percentage points!) would have been avoided had Spain adopted French employment protection institutions before the recession started. The case of the German ‘unemployment miracle’ – to which we come later – is different. Here it was less employment protection than the availability of ‘active securities’ which prevented a drastic increase in unemployment.

disguised self-employment and to some extent due to enforced self-employment of unemployed people. Many of these own account workers face high risk of volatile income and lack of health or social insurance in old age. We know little about transition rates from self-employment to wage work and vice versa, but some anecdotic evidence, especially from Sweden, tells that this dynamic may be strong. Especially the combination of open-ended part-time employment with self-employment seems to be a promising strategy for enhancing employment and income security beyond the standard employment contract.

If we combine these three forms of non-standard employment and control for overlapping (for instance, some part-timers have fixed-terms contracts; some self-employed are part-timers), we get the aggregate non-standard employment rate. This rate varies between 7 percent in Estonia and – of course the champion – 43 percent in the Netherlands (Figure 4).

Figure 4: Aggregate non-standard employment rates in Europe, 1998 and 2008



Source: Eurostat, Labour Force Survey; own calculations. The “aggregate” non-standard employment rate includes part-time, fixed-term and own account work controlling for overlaps; the EU-average excludes Bulgaria, Malta and Cyprus.

A deeper systematic comparison of employment relationships in the EU member states, their dynamics and their relationship with other performance measures of employment systems over the last decade reveals further insights (Schmid 2010).

First, through differentiation by gender, the picture becomes more telling. Both the level (EU-average of about 15 percent for men, 21 percent for women in 2008) as well as the dynamics (EU-average of about 2 percentage points change from 1998 to 2008 for men, about 4.5 percentage points change for women) hint to the fact that non-standard employment mainly affects women. It may, thereby, come to a surprise that this combined indicator for 'flexible employment'¹³ is highest both in the so-called social democratic systems (Sweden, Denmark, and the champion Netherlands, as a hybrid system, included) and in the 'liberal' systems (UK, Ireland). The family centred continental 'conservative' systems (e.g. Austria, Belgium, France, and Germany) as well as the Mediterranean systems (e.g. Italy and Spain) are in the middle; and all of the new member states (e.g. Czech Republic, Hungary, the three little Baltic states) – with the exception of Poland¹⁴ – are at the bottom.

Second, non-standard employment increased in almost all EU-member states, especially in the Netherlands, Germany and Italy. On the other hand, it is remarkable that most of the new EU-member states (the 'transition countries') not only cluster together, but that some of these countries, especially Latvia, Lithuania, and Romania experienced even a decline in the aggregate non-standard employment rate. The most likely explanation for this feature is the fact that work in the informal economy serves as a functional equivalent for formal non-standard employment. In addition, in countries with low economic prosperity, part-time work (the most important component of 'non-standard employment') does not provide enough earning for women engaged in formal labour market work.

Third, the fact that 'social democratic' as well as 'liberal' systems rank high in terms of non-standard employment can be taken as circumstantial evidence that non-standard jobs are related with very different regulatory frameworks. Whereas the Dutch or Danish non-standard employees seem to be well covered by employment and income security arrangements, this cannot be said, for instance, for their counterparts in Britain, Germany and Italy. Furthermore, not all of these

¹³ Non-standard employment is not necessarily flexible in all respects: Part-timers, for example, are less flexible than full-timers in terms of numerical working-time (overtime, short-time); fixed-term workers are often less flexible than open-ended full-timers in terms of multiple tasks.

¹⁴ Although Poland's employment rate is low like in most of the transition countries, its share of temporary work is very high. Fixed-term employment rocketed from 514,000 (1998) to 3,207,000 (2008), whereas total employment stagnated. The reason probably is the lax regulation of temporary work which allowed fixed-term chain contracts without any limit until 2003. Only in 2004, Poland introduced stricter regulation, except in the seasonal and temp-agency sector. In fact, the height of fixed-term contracts was in 2007, and the number of temporary workers declined slightly in 2008.

jobs are precarious or exclusionary. They can serve as stepping stones or as intermediary jobs within a meaningful work life career. One can also argue that the concentration of non-standard employment on young adults reflects the renaissance of occupational labour markets (Marsden 1999) requiring a series of job-to-job transitions in order to gain professional experiences and competitiveness on the labour market. Nevertheless, even in countries with high security standards, non-standard jobs often involve higher risk of exclusion than standard jobs.

Fourth, related to the Lisbon Strategy's goal of social inclusion, the good news is the fact that aggregate non-standard employment correlates both positively with employment and labour force participation as well as with prosperity in terms of gross domestic product per capita. Although correlations cannot be taken as a causal proof, this observation (especially the positive relationship in the dynamic perspective) nevertheless indicates that increased variety of employment relationships supports higher inclusion of people into the labour market as well as a higher level of market transactions. The bad news is that non-standard employment and the related higher risks are heavily concentrated on women, young people, and low-skilled, i.e. on the more vulnerable part of the labour force. In some countries, especially in Germany, the extension of non-standard jobs is closely related with the extension of low-wage jobs.

Fifth, and related to the Lisbon ambitious claim of world-class competitiveness, empirical evidence seems to indicate that rising non-standard employment does not lead to increased productivity. On the contrary, the relationship of employment growth and labour productivity (GDP per employed worker) from 2000 to 2007 is slightly negative. There is no EU Member State obtaining simultaneously very high employment and productivity growth (European Commission 2008, pp 37-9). As a consequence, the capacity for redistribution (and with it the possibility to compensate the losers in a highly dynamic economy) is weakened instead of strengthened. In other words, trading-in higher income security through redistribution (an essential element of the Danish 'flexicurity' model) for taking over higher risks related to flexible jobs (either in form of non-standard employment or in form of high job turnover) becomes a void option if no better balance of flexibility and security can be found.

The proof that it is non-standard employment which retards productivity growth has yet to be brought about. A recent study, however, partly hints in this direction.

Zhou et al. (2010) report from a sophisticated study for the Netherlands that firms with high shares of workers on fixed-term contracts have significantly higher sales of *imitative new products* but perform significantly worse on sales of *innovative new products* (first on the market). High functional flexibility in insider-outsider labour markets enhances a firm's new product sales, as do training efforts and highly educated personnel. The authors found weak evidence that larger and older firms have higher new product sales than do younger and smaller firms. Their findings, they conclude, should be food for thought to economists making unqualified pleas for the deregulation of labour markets.

To sum up, the increasing contractual variety of employment relationships and the tendency of shifting the related risks to the weakest members of the workforce combined with low productivity gains is the empirical starting point of TLM. Against this backdrop, the aim of TLM oriented labour market policy is, metaphorically, to provide "social bridges" that compensate for the higher risks of increasing contractual variety and ensure that non-standard jobs either are intermediate stages in the work-life or become "stepping stones" to sustainable job-careers. New active labour market policy, thereby, has to ensure that these institutional bridges contribute to (or, at least, do not negatively affect) productivity growth. One strategy to realise this objective might be to exploit more systematically the flexibility potential of open-ended contracts (internal numerical as well as functional flexibility, especially in terms of education and training).

TLM theory claims that the implementation of the EU's eight common principles of 'flexicurity'¹⁵ requires following consistent normative and analytical principles as well as taking into account the way people perceive their life-course risks and the way they act in situations of uncertainty. In order to establish such institutional arrangements, the theory of TLM uses the concept of social risk management, elaborated elsewhere (Schmid 2008, 213-241). The following exemplifies this

¹⁵ The eight common principles decided – after a Green Paper induced consultation of Member States – by the European Council in December 2007 are: (1) good work through new forms of flexibility and security; (2) a deliberate combination of the four 'flexicurity' components: flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, and sustainable social protection systems; (3) a tailored approach according to the member states' specific circumstances; (4) overcoming segmentation through stepping stones and through managing transitions both in work and between jobs; (5) internal as well as external 'flexicurity'; (6) gender equality in the broader sense of reconciling work, family and private life; (7) the crucial importance of the social dialogue in implementing 'flexicurity', which means – in TLM terms – negotiated flexibility and security; and, finally, (8) fair distribution of costs and benefits (European Commission 2007).

approach by deliberating on the implications of important restrictions of rational economic behaviour.

3. On the Governance of Balancing Flexibility and Security

The general question is: How should labour market policy take account of real behavioural traits – instead of ‘ideal’ traits assumed by pure theory – such as bounded rationality, asymmetric risk perception and risk aversion? Two questions are of special importance in the TLM-framework: First, how can risk aversion be overcome in order to induce people to take over more risks and the increased responsibility that goes with them? Second, how can the uncertainty entailed in negotiated agreements or contracts be overcome in order to maintain the mutual trust required for continuous cooperation under conflicting interests? Prospect theory, or the theory of intuitive judgements and choices (Kahneman/ Tversky 2000), provides interesting insights to the first question. The theory of learning by monitoring, going back to Albert Hirschman’s development theory (Hirschman 1967) and further developed by Charles Sable (1994) supplies useful hints to the second question.

The way how people perceive risks determines much their real daily choices. Most people tend to myopic risk perceptions. They overestimate small-scale risks in foreseeable future, and they underestimate large-scale risks that seem far ahead in the future. Most people buy therefore more easily travel insurance than a occupational disability insurance. Most people underestimate also the risk of unemployment or the risk of large income losses over the life course due to the erosion or lack of skills.

Another important psychological insight is that losses loom larger than gains in risk perception. On the one hand, most people prefer small certain gains over large uncertain gains, in other words, they prefer the bird in the hand instead two birds in the bush. On the other hand, most people are extremely loss averse. They don’t like to give things away even if prospect of gains are bright. Psychologists have found out that the loss to gain ratio is about two to one. It makes thus a difference in perception whether one frames a risk in terms of losses or gains.

From these insights, important conclusions for the policy design of risk sharing can be drawn. Daniel Bernoulli, one of the founders of probability theory and thus of risk management, gives the clue. He made the observation: ‘A beggar will not

give up begging for a workfare job since he would lose his ability to beg. He has to be offered something more' (Bernstein 1996, p. 119-20). This "more" – what could that be? TLM-theory suggests a specific solution to this psychological problem: the extension of the expectation horizon through a set of opportunity structures available in the most critical events during the life course.

The first pillar of extending the expectation horizon would be the establishment of new social rights that go beyond employment. A solution could be the transformation of the employment contract to a citizen-based 'labour force membership' status ('*statut professionnel*')¹⁶ that includes *all* forms of work. The 'statut professionnel', therefore, would also embrace income and employment risks related to transitions between various forms of employment and work. This concept has been formulated most forcefully in the Supiot-Report already ten years ago. The authors of this report start with the observation that the terms of the trade-off on which the classical employee status was based – that is subordination in return for security – are now turned on their head without any new ones taking their place. This creates the problem of adapting labour force membership to the new employer-employee relationship. Where the Fordist model hinged on the stable organisation of groups of workers, the new model is based on the opposite idea of the coordination of mobile individuals. It has to react to the necessity (and difficulty) of defining a membership of the labour force that integrates individualisation and the mobility of professional careers. To the extent that this individual mobility becomes the dominant characteristic in tomorrow's world, labour law has to ensure employment stability and thereby guarantee workers recognition as labour force members. The paradigm of employment would thus be replaced by a paradigm of labour force membership for individuals, not defined by pursuit of a specific occupation or a specific job, but covering the various forms of work which anyone might perform during his or her life (Supiot 2001, pp. 25-6, 55).

The new social rights are new in that they cover subjects unfamiliar to industrial wage-earners: rights to education and training, to appropriate working hours, to a family life, to occupational redeployment, retraining or vocational rehabilitation, and to fully participate in the civil and social dialogue. Their scope is also new since they would cover not only 'regular' wage-earners but also the self-

¹⁶ This official English translation is not satisfactory; the original French term "statut professionnel" would be translated in German as "Arbeitsmarktbürger".

employed, temp-agency, contract and marginal workers. They are new in nature, since they often take the form of social drawing rights, which allow workers to rely on solidarity, within defined and (possibly) collectively bargained limits in order to exercise the new freedoms.

These new securities can no longer be seen as being given in exchange for subordination (as in the old employment contract), but as the foundations of a new freedom to act. They can be considered as *active social securities*, which go hand-in-hand with worker's initiatives to shoulder the risks of flexible employment relationships instead of restricting them. Whether the institutional guarantee of security takes the form of open-ended contract with inbuilt flexibilities or fixed-term contracts with fair risk-sharing devices depends on the situational configuration and on institutional path dependency. We will come back to this point in the last section.

The *second pillar* for extending the expectation horizon would be – to put it metaphorically – stepping stones and bridges to overcome critical events during the life course. The tendency of overestimating small-scale risks immediately in sight and underestimating large-scale risks in the long distance leads for instance people to perceive the risk of being stuck in the low-wage sector to be greater than the risk of long-term unemployment resulting possibly from being too choosy about the jobs they will accept. Active labour market policies, therefore, should not be confined solely to offering jobs and placing individuals in work. Follow-up measures are required for *transforming sheer workfare measures into stepping-stones* to sustainable job-careers.

The *third pillar* for extending the expectation horizon would be psychological bridges to overcome asymmetric risk perception. Acceptance of risky jobs means often abandoning familiar certainties, even though they may have a lower value than the new employment prospects. These 'familiar certainties' may be of various kinds. The reliability of social assistance benefits possibly supplemented by a small amount of clandestine employment may be one example, the confidence in one's own *productive capacities* another. Taking on a risky new job, however, brings with it the fear of losing these capacities.

To give an example: Risk aversion of people coming from a relatively poor background has a financial as well as a psychological dimension. Paradoxically, the psychological dimension can be even more important than the financial, as Bernoulli's example of the beggar had already signalled. From motivation studies

we know, that poor people are especially dependent on the sociability of their peer groups. Training and education, however, implies often a change of the peer group, especially when job mobility is required at the end. The consequence of this insight might be to arrange group measures instead of individualised measures in order to stabilise trust within an established social network.

The financial implication is to take care in the programme design that fall back positions remain always in sight. It is therefore important for these target groups to have the opportunity to try out several jobs without benefits withdrawn immediately if one option does not lead to success at once. Trust in such opportunity sets rules out rigid workfare strategies that do not allow trial and error as a productive job search strategy. For the same reason, the implementation of training measures for these target groups should also avoid raising too high expectations, for example through the requirement of passing formal examinations.

The *fourth pillar* for extending the expectation horizon would be the establishment and reinforcement of *learning communities*. Learning communities are a paradigm of negotiated flexibility and security but they differ from traditional collective bargaining in at least two ways. First, they include not only trade unions and employers associations but also other parties that play a key role in the regional economy. Second, learning communities usually involve a representative of public authorities at local, regional or national level.

Learning communities are a relatively recent phenomenon and known under different names, for instance in Germany under ‘Alliances for Jobs’ (*Bündnisse für Arbeit*), and in the Netherlands as ‘covenants’. In a seminal paper, Ton Korver and Peter Oeij (2008) define – and the following relies heavily on their intriguing rhetoric – a covenant as an undersigned written agreement, or a system of agreements, between two or more parties, at least one that is or represents a public authority, meant to effectuate governmental policy. There is not one format of covenants, but they share common features: enough overlapping interests of participants, mechanisms bringing about both definition and the machinery of achievements, the parties cooperate, and formal sanctions are absent, yet parties have the opportunity to go to court in case of another party's default.

Covenants are needed where issues are at stake in which it is not, or not yet, clear what exactly is required of which participants to achieve commonly set and shared values and targets. And since this is unknown, it is quite premature to invoke the

regular process of bargaining and thus of deciding on the distribution of the eventual net advantages of the joint effort. In fact, what the net advantages are, how they can be achieved by whom, and how they are then to be distributed, can only be clarified along the way - i.e. through learning by monitoring.

Learning means acquiring the knowledge to make and do things that (labour) markets value (and therewith *un*learning the things not so valued). Monitoring means the assessment of the partner-in-learning in order to determine whether the gains from learning are distributed acceptably. This leads to a dilemma. Learning may undermine stable relationships due to changing identities. The result is conservatism because winners and losers are not known in advance: The advancing knowledge economy, for instance, very likely will increase the inequality of incomes further strengthening the trend of the past two decades. That may lead to a decision trap: When outcomes are uncertain and where the odds are that some will lose and others will win, with the distribution of odds unknown, conservatism is more likely than innovation. In respect to employment and work, conservatism means that parties revert to their already established identities (*'I am a manager'*, *'I am a craft worker'*, and so on) and to the interests associated with those identities, including social hierarchies and rank and ideas of equity. When monitoring is steered by already established identities and vested interests, learning is sure to be hampered, if not immobilized, for learning entails a redefinition of identity and interest. New partnership arrangements, therefore, are needed to overcome such decision traps.

To summarise and to set these observations into the TLM framework, covenants defined and designed as learning by monitoring are a strategy of policy sequencing. Instead of planning we get exploring (Hirschman 1967), and risks are transformed from danger to trust. TLM do not emphasize risks we want to avoid; in other words those risks we would not normally choose to take. In the context of TLM one needs to discuss risks that we take; for instance when moving from one job to the next, from one employer to the next, from one combination of activities in work, care and education to the next, and so forth. Here the counterpart of risk is not danger but trust. We do not want to insure only for accidents, ill-health, unavoidable old age or other undesired mishaps; we want to insure for moves we want to make during our career and, indeed, in our chosen life-course trajectories. And as we make such moves in the expectation that they conform to the general goals of more flexibility, more transitions and more training, we want to be able to cash in on our insurance when these expectations are disappointed. The

opportunities for covenants within the TLM-framework are in the transformation of risks: from danger to trust, from external attribution (events that we undergo) to internal attribution (events we bring about). For it is this transformation that needs to be made in order to tackle the opportunities of flexibility, transitions and training, and the problems (bottlenecks, linkages) these give rise to. It is the same transformation that underlies the problem of employability, with its emphasis on personal responsibility, as distinct from the collective or public responsibility derived from the traditional case of involuntary unemployment.

The paradigm of learning communities, however, cannot be applied to all situations of collective choice. We have to come back therefore to the original concept of transforming the classical employment contract into a citizen based labour market status which broadens the flexibility-security nexus by further elements of ‘active securities’. In the following, I will elaborate on two regulatory ideas: First, on rights and obligations to capacity building and second on coordinated flexibility as functional equivalents to (numerical) external flexibility.

4. Active Securities as Functional Equivalents to (Numerical) Flexibility

The first example related to ‘active securities’ can be put under the headline: *Capacity building through ex ante redistribution*. The general strategy would be to remind policy makers of the forgotten part of insurance, which means to stimulate ‘innovative hazard’ instead of only concentrating on the control of ‘moral hazard’. This is what is meant by the slogan ‘making transitions pay’, in other words rewarding and ensuring risk taking.

Under the perspective of new social risks related to critical transitions over the life course, it would make sense to extend unemployment insurance to a system of employment insurance. Mobility insurance, either in form of wage insurance like in Switzerland or in form of the severance payment scheme (*Abfertigungsrecht*) in Austria (Schmid 2008a, 293) are already good practice to make transitions pay. In Germany, I have proposed to link parts of former UI-contributions to a training fund matched by resources from general taxation for ex-ante redistribution in favour for high-risk low skill workers. Each worker would be entitled to the same drawing rights from this fund over his or her life course independent of his or her saving capacities (Schmid 2008b). As the reasoning about transforming danger to trust made clear, such virtual capacities and monetary incentives would have to be

complemented through public infrastructures ensuring reliable and efficient implementation.

The second example can be put under the headline: *Capacity building through accommodation*. The general strategy would be to extend work opportunities through ‘making the market fit for workers’ with the aim of greater social inclusion. This would mean to enrich the standard employment contract by imposing duties of reasonable adjustment on employers in favour of workers, especially those with reduced work capacity.¹⁷ In other words – and recently also formulated by Simon Deakin in his recent book with Alain Supiot – rather than requiring the individual to be ‘adaptable’ to changing market conditions, the employment contract requires that employment practices be adapted to the circumstances of the individual (Deakin 2009, 28).

Simon Deakin interestingly provides good practices mainly related to disability policy in Europe, an emphasis correctly reflecting the salience of this problem, noted also by Amartya Sen (2009).¹⁸ A good example in this direction, too, is the recent modification of the German law for severely disabled people, which stipulates the right of disabled against their employer to

- an employment which enables them to utilise and to develop further their abilities and knowledge,
- the right to privileged access to firm-specific training,
- the rights to facilitation the participation in external training,
- the right to disability-conform work environment, and
- the right to equipping the work place with required technical facilities.¹⁹

¹⁷ Such duties can be derived (in contrast to all utility related approaches of justice) from the principle of *justice as agency*, called “responsibility of effective power” by Sen (2009, 270 ff), or from the concept of “individual solidarity” in my own terminology (Schmid 2008, 226 ff).

¹⁸ Sen (2009, 258-60) draws the attention to the fact that for people with disabilities, the *impairment of income-earning ability* is often severely aggravated by a *conversion handicap*. He cites a study for the UK showing that poverty drastically jumps by 20 percentage points for families with a disabled member if taking account for conversion handicaps, whereby a quarter can be attributed to income handicap and three quarters to conversion handicap (the central issue that distinguishes the capability perspective from the perspective of incomes and resources).

¹⁹ SGB (*Sozialgesetzbuch*) IX, § 81 (4).

It is evident, that these kinds of adjustments duties require support through collective agreements or social pacts between firms and other key actors at the local or regional labour market.

The first example for ‘coordinated flexibility’ can be put under the headline: *Enhancing internal flexibility through mutual obligations*. The general strategy is to enhance internal adjustment capacities through continuous and – possibly – anticyclical investment. This would mean imposing duties for reasonable adjustment not only on employers but also on employees, especially in terms of investing continuously into their employability over the life course.

I know, this is a sensitive and difficult question. Duties may easily overburden either side of the employment contract or restrict freedom of choice. However, negative externalities for not investing into the future may be one justification, for instance the danger of work accidents, health risks or functional illiteracy through inability to use new technologies. Positive externalities through individual investment, on the other hand, may not be fairly distributed in case of bad luck on the market if no provision is taken for periodic redistribution, for example through progressive taxation.

The second example for coordinated flexibility can be put under the headline: *Enhancing internal flexibility through risk-sharing or pooling of human resources*. The general strategy here is to enhance internal flexibility and security through risk-sharing within the internal labour market or through extending the internal labour market beyond the firm through resource pooling.

An example for risk-sharing within the internal labour market is the German *Kurzarbeit* (‘short-time work’). This instrument has a long tradition in Germany, but can nevertheless still be counted as a ‘best practice’ case for the concept of employment insurance. Dismissals or layoffs are avoided through sharing the income risk of falling demand between employees, employers and the state (via the public unemployment insurance system). When the world-wide financial crisis started, the number of short-time workers rocketed within a few months to its top of about 1.5 million in May 2009, averaging 1.2 million for the whole year, of which 700,000 were related to the (export-oriented) metal-electric sector. The crisis hit especially skilled men in economically strong firms and Germany’s hot spot regions (Baden-Wuerttemberg, Bavaria). It is estimated that workers, so far,

carried about 3 billion Euros of the costs,²⁰ employers about 5 billion,²¹ and the federal employment agency about 4.6 billion.²² The new regulatory idea connected with this instrument is to protect not individual jobs per se but to ensure the preservation of accumulated ‘human capital’ and to enhance this capital through further employability measures, especially training and education.

Kurzarbeit, so far, has prevented – in combination (!) with other work-sharing measures²³ plus a demand stimulus for the automobile industry²⁴ – mass unemployment in an astonishing way. Despite of at least 5 percent decline in economic output, unemployment rose only by 150,000 (0.35 percentage points) in 2009, whereas employment remained stable or even slightly increased. This induced the global media industry²⁵ to celebrate the German job miracle, which certainly is correct compared to the crisis response of many other countries (e.g. Spain or the United States), but an exaggeration considered the (potential) side effects. The intended combination with training measures, for instance, was not really successful. In October 2009, the employment agency counted only 113,272 workers combining short-time work and training (cumulated entries). The instrument is also quite dangerous for it may preserve industrial structures which in the long run are not competitive. There is also concern about the fact that, for the first time in German history, productivity fell during a recession due to additional labour hoarding (Herzog-Stein 2010), but possibly also due to the steady decline of private or public investments in Germany during the last

²⁰ The replacement rate of earnings for the reduced working-time corresponds to the unemployment benefit scheme: 60% (without children), 67% (with children) related to the “normal” net earnings.

²¹ For the employer, *Kurzarbeit* does not reduce labour costs proportionally with working hours. Some of the fixed costs of labour remain, estimated between 24% and 46% per reduced working hour, depending on the size of state subsidies. These remaining costs, practically, increase through many collective agreements topping up short-time-allowance as an additional kind of wage insurance through negotiated flexibility (Bach/Spitznagel 2009).

²² Financed by unemployment insurance contributions and partly through tax financed subsidies by the federal government, the latter targeted mainly to social security contributions (employers, otherwise, would have to pay) and to training costs as far as they occurred.

²³ Melting down accumulated time accounts (saving the equivalent of 244,000 jobs), overtime work (285,000 jobs equivalent), and other forms of working time reductions (equivalent of about 500,000 jobs) through flexible working-time corridors allowed by collective agreements (Herzog-Stein/ Seifert 2010, Möller 2010).

²⁴ A wreck-bonus (*Abwrackprämie*) of 2,500 Euro for buying a new car (supposed to be less polluting) in exchange for a car at least nine years old; the German government spent altogether about € 5 billion, however, the bonus also benefitted imported non-German cars.

²⁵ For instance the magazine *Economist* devoting a special issue (March 13th, 2010) to the German job miracle, as well as Nobel Prize winner Paul Krugman in his columns in *The New York Times* and *International Herald Tribune*.

decade.²⁶ In any case, the flip side of this kind of employment security will be an extended period of jobless growth during the recovery (Möller 2010, 336).

A more innovative example of pooling human resources outside risky temporary or fixed-term employment contracts is the recent collective agreement in NRW's metal and electric industry. This agreement allows firms to lease redundant workers (by keeping the standard employment contract) to firms with labour or skill deficits. The social partners adopted with this agreement a good practice already familiar in the soccer industry.²⁷ The story has yet another interesting side issue. If one agrees that this practice should also be possible between industrial sectors (for instance between main contractors and subcontractors falling under different collective agreements), the German law on Temp-agency work (*Arbeitnehmerüberlassungsgesetz*) would have to be changed since it allows such a personnel change only within the same sector.

A final good practice example for coordinated flexibility (and related to an important challenge all EU-member states are facing) is the German collective agreement in the chemical industry in April 2008 setting up so-called demography funds (*Demografiefonds*). This overall framework agreement at the sectoral level of the chemical industry (including mining and energy companies) will be implemented basically through further negotiations at the company level.²⁸ With the beginning of 2008, all employers in this sector are obligated to yearly contribute €300 for each employee into a fund, which can be utilized after corresponding negotiations and deliberations at the firm level for various aims, among others for early retirement under the condition of building a bridge for young workers entering employment or for buying occupational disability insurance. From now on, building up a corresponding and transparent information system reflecting the age and qualification structure of the companies' workforce is also required for all firms, thereby extending the expectation or planning horizon for employers as well as for employees. The concentration of these funds on early retirement instead on broader issues of 'humanisation of work' (e.g.

²⁶ This alarming trend reflects the probably too heavy reliance of the German employment system on the export industry.

²⁷ Pundits of German *Fußball* were curiously following up a prominent example: *FC Bayern München* lent *Toni Kroos* to *Bayer Leverkusen*. This example is especially telling because it hints to a sensitive issue and to potential limits of this model. *Bayern München* and *Bayer Leverkusen* are both at the top of the German league (*Bundesliga*). The decisive game between these two clubs took place on the 10th of April (2010); *Toni Kroos* turned out to be decisive in preparing the one goal for Leverkusen to reach a draw, which means he could have scored against his employer to whom he has to return after the 2009/10 season.

²⁸ Information can be uploaded in the website of IGBCE trade union under "*Demografiefonds*".

work-life balance, continuous education and training), however, has to be considered a flaw from the TLM perspective.

Summary and Outlook

The starting point – to sum up – was that ‘flexicurity’, the flagship of the European Employment Strategy, lacks conceptual rigour. It often invites, therefore, to cheap talk, to opportunistic use for various political interests, to the mistake that flexibility is only in the interest of employers and security only in the interest of employees, or to consider ‘good practices’ as a menu à la carte. The aim of this paper was to contribute to conceptual clarity by using the theory of transitional labour markets (TLM). In this perspective, active securities – understood as legally guaranteed social rights to participate in decisions over work and employment and to share equally their fruits as well as their risks – are an essential condition for bringing flexibility and security to a right balance. These securities are ‘active’ in the sense that they require deliberative interaction (and often negotiation) between individual or collective actors on the labour market.

One reason for the ambiguity of the ‘flexicurity’ concept is its lack of a clear normative orientation. Its usual appeal to a ‘win-win-game’ between employers and employees is naive in the sense that it recognises neither the still existing power gap between the two classes of actors nor within these two classes (multinationals versus small enterprises, high skilled versus low skilled people). The metaphor of ‘balancing’ flexibility and security remains void without taking account of such differences. The paper started, therefore, with the normative basis of TLM, which is grounded on four principles of justice. Considering *justice as fairness*, for instance, requires concentrating policy intervention on the lot of the most disadvantaged in order to guarantee freedom from want for all. *Justice as solidarity* requires endowing all individuals with equal opportunities, especially embedding equality into a gender-sensible life-course perspective (work-life-balance). *Justice as agency* hints to the need of building up individual capacities or capabilities in the sense of providing an opportunity set for the freedom to act. An important consequence of this agency perspective is the emphasis on actual opportunities, in labour market terms on “work first” but only under the condition of decent minimum wages and sustainable job careers. *Justice as inclusion*, finally, demands the extension of risk-sharing communities beyond conventional

social borders (including, for instance, people with restricted work capacities) and – due to globalisation – especially beyond national borders.

The second reason for the conceptual vagueness of ‘flexicurity’ is its lack of a systematic empirical background able to explain the sources of (new) insecurities and the sources of (new) demands for flexibility on both sides – employers as well as employees. This was the motivation to contribute to this background by systematically comparing the structure and dynamic of non-standard employment relationships as the alleged core of flexible employment relationships in Europe at two points of time (1998 and 2008) using the European Labour Force Survey.

Among the ‘non-standard’ forms of employment, *part-time work* is the most important driver for the – at least partly successful – inclusion of mature aged workers and (especially more) women into the labour market. Whereas its flexibility potential is uncontested related to employees, part-time work – especially in its open-ended and substantive form (more than 20 hours) – does not necessarily increase employers’ flexibility, partly on the contrary. The most important insecurity aspect related to part-time (especially in its marginal forms) is reduced accumulation of pension entitlement.

Temporary work is basically driven by the wish of employers to manage (new) uncertainties related to volatile demands and – especially – to cut down wage costs by avoiding, for instance, insurance related wage increases of open-ended contracts (e.g. seniority wages). High dismissal costs through employment protection regulation are important drivers, too, explaining to some extent systematic national differences in utilising temporary work. The most important insecurity aspects related to temporary work is its higher risk of unemployment, of low wages and the danger of getting stuck in a downward spiral of precarious fixed-term contracts.

Self-employment, as the third most important element of ‘non-standard’ employment, is on the decline related to its traditional components (farming, petty bourgeois business), but thriving – at least in the more prosperous EU member states – in terms of ‘modern’ forms related especially to the so-called creative sector, and often also in combination (or sequence) with dependent wage-work. Whereas the latter form of self-employment opens some interesting opportunities for employers to (cheaply) outsource tasks and services, it seems to be an interesting playing field for young adults to try individual autonomy and agency, or for parents to combine family work with gainful employment. In any case,

however, the related risk of social insecurity (low and volatile income, and under-insurance in case of illness and old age) is high.

Among many more interesting facets of this exercise, two important conclusions came out: First, there is still a tremendous lack of information on transitions and transition sequences between 'non-standard' and 'standard' forms of employment, especially in terms of life-course careers, which inhibits firm conclusions on the flexibility and security implications of non-standard employment. What is clear however, is that these implications are quite different related to the various forms of non-standard contract. Second, (still anecdotic) evidence seems to hint on the failure to improve overall productivity and competitiveness based on 'flexible' employment relationships via 'non-standard' forms, especially related to fixed-term contracts.

The third gap in the 'flexicurity' concept is its neglect of behavioural traits in terms of individual perceptions and choices related to (new) employment risks. Any policy, however, intending to support labour market actors in preventing, mitigating or coping with (new) employment risks must consider these traits in designing the right policies or institutions. Thus, this matter of 'flexicurity-governance' was taken up in the third step by briefly summarizing insights of new behavioural economics and the theory of learning by monitoring. As most people are myopic related to high risks with low probability and – depending on the situation and the framing of the problem – either risk averse or unreasonably speculative risk takers, the strategy of extending the expectation (and corresponding planning) horizon seems to be a useful guideline for policy intervention. Four (mutually not exclusive but complementing) possibilities were presented and discussed: First, the establishment of (new) social rights beyond employment; second, stepping stones for navigating through various risks over the life course; third, group instead of individual employability measures; fourth – and especially promising – the establishment of learning communities through social pacts or covenants.

Agreeing covenants (the most interesting element of 'active securities') is rather different than issuing rules and laws. Instead of enforcing institutional forms of 'insurance', covenants build on trust and social cohesion, thus, on forms of 'ensurance'. They are examples of what is nowadays called 'soft law' or 'soft regulation', and fit in with the larger European trends on coordination. Although it may be too early to advocate covenants for the European level, if only because

none of the more essential partners (Council, Commission, European trade unions and employers) possesses the muscle to bring them about, many EU Member States dispose about these conditions, and the new European Employment Strategy might at least play a midwife role in supporting such social pacts; European border regions even might start pilot projects in this direction.

A fourth weakness in the ‘flexicurity’ concept is its neglect of the interrelationship between flexibility and security. In many cases, security provisions are the precondition for normal ‘human animals’ taking over risks. However, securities can be of different kind and may have different incentives. As theory tells us, any (social) insurance-contract leads people to think of their contributions as kind of investment that must have some pecuniary return (even in case they are lucky not being affected by the risk, e.g. unemployment, over their life course). It is, however wrong, to consider only the negative incentives related to (in fact any kind of) insurance and to concentrate all policies to get this ‘moral hazard’ under control. Much neglected are the positive incentives, which we may call the ‘innovative hazard’ of insurance and which encourages people to take over risks (with positive externalities for the society) they otherwise would not take. Such innovative hazard requires a corresponding safety net either in terms of monetary benefits or in terms of social infrastructures on which workers can rely with trust if they are caught by the negative side of the risks they have taken over.

The real art of ‘*balancing flexibility and security*’, therefore, is to balance ‘moral hazard’ as well as ‘innovative hazards’ in such a way, that society indeed reaches a higher level (‘equilibrium’) of flexibility and security. As the empirical part of this paper has shown, the concentration of flexibility measures on external flexibility such as fixed-term contracts and out-contracting (among others to own account workers) has shifted risks to individuals or small enterprises without, yet, persuasive compensations of security and without producing persuasive evidence of increased sustainable productivity and competitiveness. This gave reason to look to alternatives for which I presented two regulatory ideas on the basis of ‘active securities’, which means institutional support enhancing the ‘innovative hazard’ instead of controlling ‘moral hazard’ related to securities: Rights and obligations to capacity building and coordinated flexibility as functional equivalents to (numerical) external flexibility. The final section exemplified the potential role of such ‘active securities’ with special emphasis on good practices from the recent ‘German job miracle’, which, however, had to be partly qualified considering their real or potential dangerous side effects.

A final caveat, therefore, seems to be in order: As successful countries demonstrate, balancing flexibility and security has to be embedded in sound macro-economic and macro social policy. Without a sustainable job creation dynamics, all employability and stepping-stone strategies are in danger of ending up in a cul-de-sac or of displacing other categories of workers. Without new active securities, envisaged and represented perhaps in a ‘social progression clause’ of a revised Lisbon Treaty, all ‘flexicurity’ strategies might end up in new forms of labour market segmentation.

As the process of Europeanization, in particular through the Eurozone, increases interdependencies, co-ordinated efforts to stimulate sustainable economic growth are required, especially through investments in a better European economic and social infrastructure. Related to our emphasis on ‘active securities’ (and in a bit of speculative mood), the extension of the European Social Fund to a European Employment Insurance Fund, or at least a complementation of the European Social Fund through a focused European Knowledge Lift Fund,²⁹ would make the European Social Model not only more visible and tangible, but might also develop into a new level-playing field for balancing flexibility and security through an enhanced civil and social dialogue.

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²⁹ According to the Swedish example (see Albrecht et al. 2005).

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