

**Questioning the “flexicurity” model  
with regard to the rise of job insecurity.  
Focus on Germany, Spain, Italy and France**

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**Summary:** *After a study of the macro-economic framework of 4 countries, Germany, Spain, Italy and France, we propose to focus on the increase of job insecurity. A new social situation, mainly linked to the development of labor market flexibility, has arisen in those countries and in most of the European countries, that of the poor worker receiving benefit. We present the flexibility mechanisms of the labor markets in place since the 80s, and sometimes even deregulation mechanisms in certain countries. In general, flexibility is introduced through legislation, securing elements through negotiation. We then emphasize the differences in the impact of the crisis on employment in the 4 countries, and on the legislation implemented.*

The 2008-2009 crisis and the difficult years that followed have strongly impacted employment, notably in Europe. Social inequality already on the rise since the end of the 70s was accentuated. Nevertheless, according to their labor market models, some countries seem to have better faced the crisis.

The countries of the Euro Zone make up a group brought together by the economic integration process. After a study of the macro-economic framework of the 4 countries, Germany, Spain, Italy and France, we propose to focus on the increase of job insecurity. This rise is worrying in all 4 countries: it does not only impact people on the margin of society, but is at the heart of our production system (Rigaudiat, 2007). A new social situation, mainly linked to the development of labor market flexibility, has arisen in most of the European countries, that of the poor worker receiving benefit, “a sort of entering into what is called job insecurity/precariousness, a durable status beyond employment” (Paugam, 2010).

There follows an evolution in particular flexible employment forms that we can measure with the increase of employment elasticity of growth, at a different pace in each country. We present the flexibility mechanisms of the labor markets in place since the 80s, and sometimes even deregulation mechanisms in certain countries. The “flexicurity” principles boosted by the European Commission do not evenly apply to the different countries, they differ according to the social model. The analysis of the development of this phenomenon in Germany, Italy, Spain and France shows various possible combinations of flexibility and security. But one regular component seems evident: flexibility is introduced through legislation, securing elements through negotiation.

We then emphasize the differences in the impact of the crisis on employment in the 4 countries, and on the legislation implemented. From indicators relative to employment, we analyze the situation of target groups (women, young people and seniors) before and after the

crisis. These statistics show that enhanced flexibility of labor markets has not allowed the decrease of the impact on employment. On the contrary, notably in Spain and Italy, job losses are catastrophic, and inequalities have taken root. Concerning this issue, we have relied on published literature.

This study is also fueled by the implementation of two research programs, one launched in 2007 on job insecurity and new employment forms, the other one in 2009 on securing career paths, and on social dialogue. Both programs have benefited from the financial support of the DIRECCTE I in the Rhône-Alpes region, the Rhône-Alpes Regional Council and the European Social Fund.

## I/ Strong employment elasticity of growth in the Euro Zone: more flexibility in Europe?

By working on the evolution of employment in Germany, Spain, France and Italy, we focus on 4 countries whose working population is the highest in the Euro Zone. In 2011, there were 42.2 million people working in Germany, 23.1 million in Spain, 28.6 million in France, and 25.1 million in Italy. This represents over three-quarters of the working population in the Euro Zone according to the 2012 Eurostat survey data on labor force. Between 1994 and the beginning of the recession in 2008, the 4 countries go through a growth period in terms of employment volume. This growth stops in 2009. The reversal is global but very different according to the countries. This shrinking in employment in 2009 is limited, given the drop in GDP, notably in France and Germany. In 2010, the volume of employment increases again in Germany, Spain and France. The 2009 decline comes after a slowdown in the GDP growth of all 4 countries in 2008.

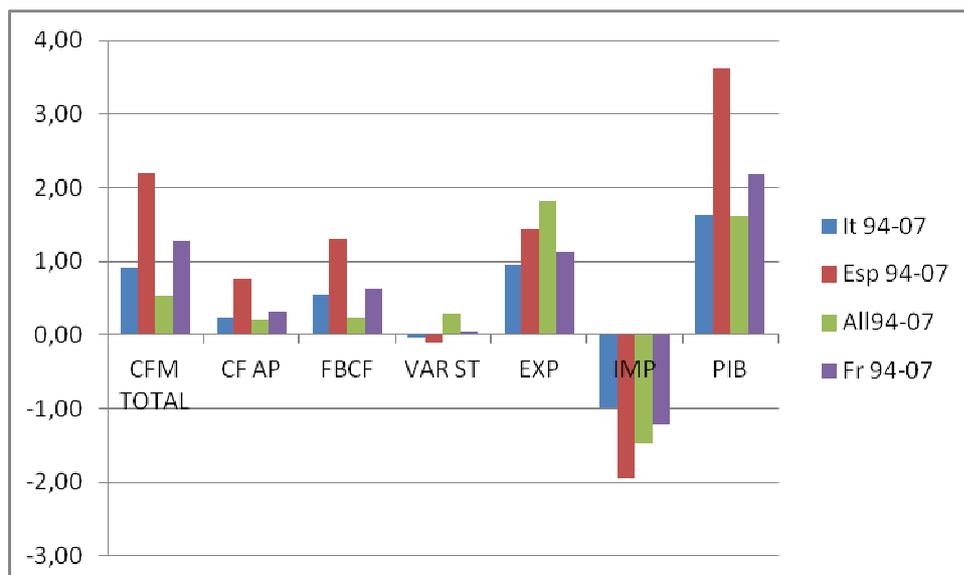
We have thus decided to study a relatively homogeneous period from 1994 to 2007, then the annual changes between 2008 and 2011. We first analyze the main macro-economic trends of the growth and recession periods, then the employment trend linked to this evolution of activity.

### **A/ The approach through growth demand in the Euro Zone**

The approach through GDP demand in Germany, Spain, France and Italy enables us to develop an analysis of the economic circuit by focusing on the role played by household consumption, the dynamism of public goods production (final consumption of public administrations), the evolution of investment (gross fixed capital formation and stock variation) and imports/exports. We choose to detail the role of external demand by isolating exports and imports.

The 1994-2007 period being a relatively unified phase, we propose to compare national features in a synthesis graphic taken from the OECD macro-economic database, and partially summed up in the statistics appendix of the *Perspectives Economiques* publication (June 2012 for this text, data extracted from the database in July 2012). For practical purposes, we work on the 1994 data to measure demand components, and on the geometrical variation averages in volume of aggregates from 1995 to 2007. In the graphics, we do not change the sign concerning the value of imports, which of course negatively contribute to the GDP evolution.

#### **Graphic n° 1: Growth regime in the Euro Zone, 1994-2007**



**Chart n° 1: Contributions to growth in %, annual averages**

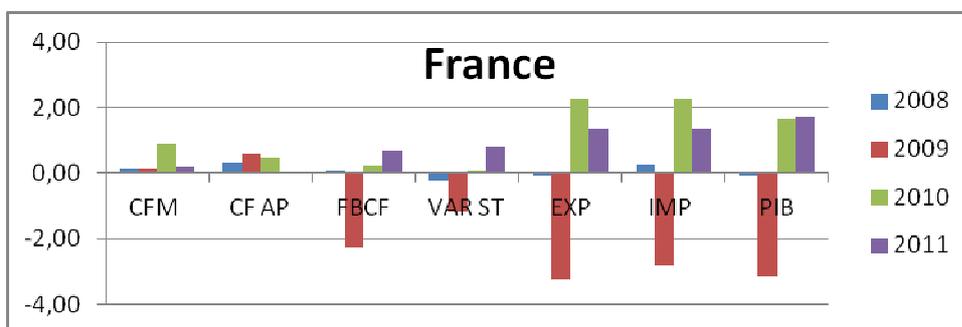
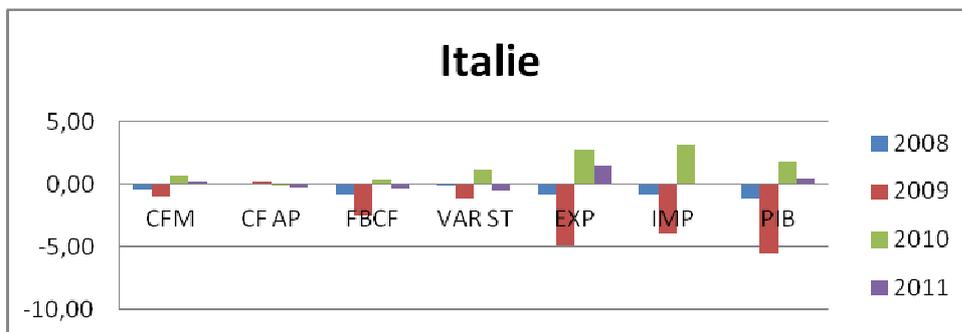
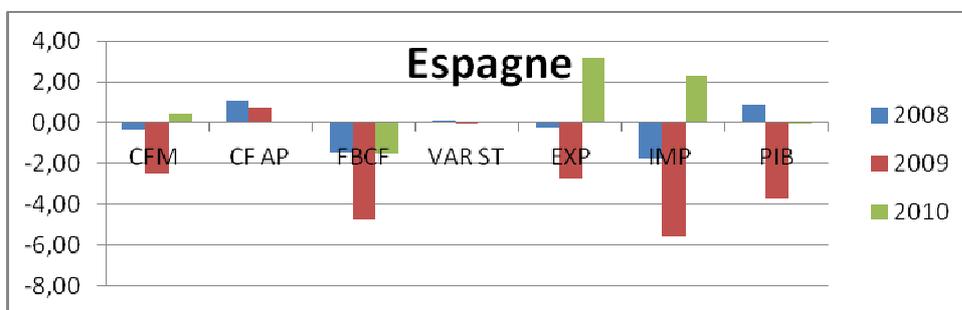
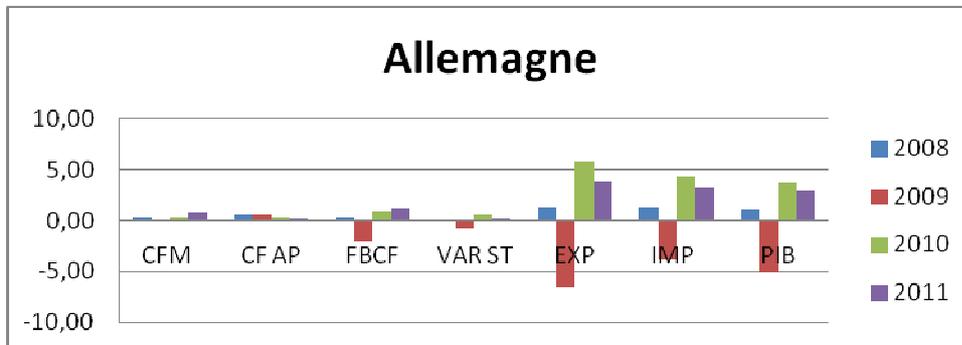
	<b>Italy 94-07</b>	<b>Spain 94-07</b>	<b>Germany 94-07</b>	<b>France 94-07</b>
Final consumption of households	0,92	2,20	0,54	1,27
Final consumption of public administrations	0,24	0,76	0,20	0,31
Gross fixed capital formation	0,54	1,29	0,23	0,62
Stock variation	-0,03	-0,11	0,29	0,06
Exports	0,94	1,44	1,81	1,13
Imports	-0,99	-1,95	-1,47	-1,22
GDP	1,63	3,63	1,61	2,18

The 4 main countries of the Euro Zone present strong macro-economic differences from the point of view of economy dynamism and demand mechanisms/levers. They share a large economic opening, and exports and imports have therefore a significant weight within their growth regime. This weight is now of a level comparable to the role of national household consumption. For this period, Spain records the most dynamic growth in terms of internal demand, but its external position is already negative. France goes through a rather dynamic period, notably with regard to household consumption, but its external balance, positive at the beginning, moves backwards and ends up being negative for the whole period. With a less rapid GDP growth, Italy and Germany experience very different growth regimes. The external balance is positive for Germany where internal demand is literally compressed. On the contrary, Italy's external position weakens with time, whereas household consumption, public goods production and investment are the growth drivers.

The 4 countries go through this period with strong opening rates and medium growth levels for countries belonging to the OECD. Growth is more sustained than in Japan, but less dynamic than in the United-States, Sweden or South Korea, if we focus on a few OECD countries. Job creation is impacted. The growth of the opening rate means that exports and imports now drive growth as much as consumption does. It is interesting from a growth pace point of view to have low production costs in order to export, rather than high revenues to consume. Salary evolution is impacted.

From 2008, the 4 countries show stronger differences.

**Graphic n° 2: Annual contributions to growth, from de 2008 to 2011**



Everywhere, recession is severe in 2009, Italy and France being already hit by a slowdown in 2008. Activity recovers in 2010, except in Spain. In 2009, recession is linked to the drop in investments, stocks and exports. The decline in imports has an opposite effect on national production. In Spain, the decrease in investments lasts for 3 years, in Italy the recession starts earlier than elsewhere as consumption immediately declines. In Germany, economic recovery

is strong in 2010. Household consumption and public goods production together play a stabilizing role. In Italy and Spain, the impact of public administration consumption is reversed as soon as 2010; the effort is well noticeable in Germany over 3 years, and rather concentrated on the year 2009 in France.

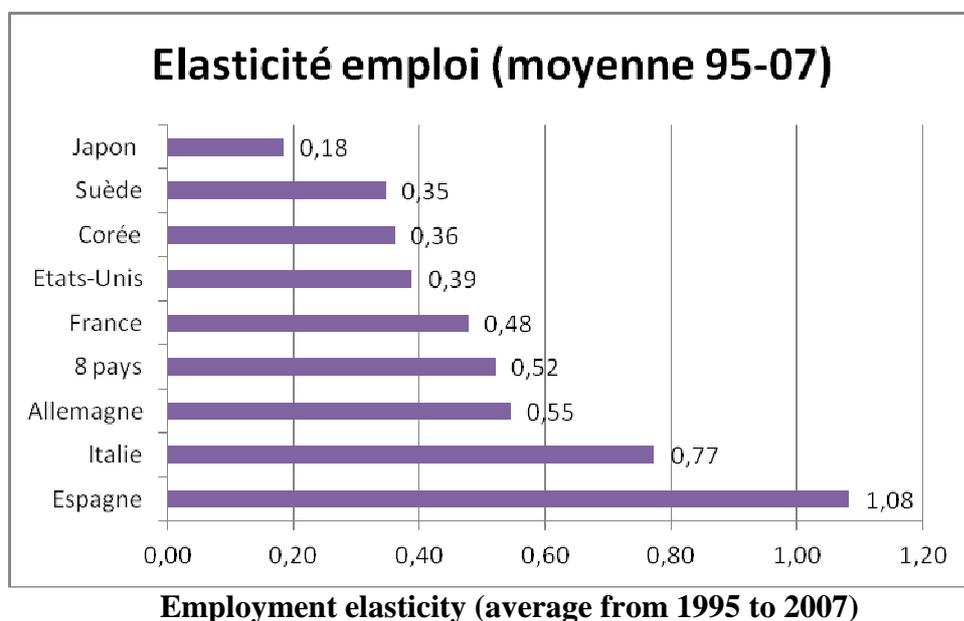
What are the links with employment? The evolution of employment is clearly positive from 1996 to 2007 in the main countries of the Euro Zone; the 2009 decline is limited with regard to the seriousness of the recession, except for Spain.

## B/ Employment and activity

To introduce our analysis of employment evolution, we rely on studying the employment elasticity of growth. From the database concerning the OECD working population (data of July 2012), we can link the evolution of global employment compliant with the OECD's definition, to the evolution of national activity, measured through the GDP. Elasticity is the annual variation of employment divided by the annual variation of the GDP in volume. We thus obtain a measure of the wealth of employment growth, that-is-to-say the proportion in which one point of growth results in job creation, proportion very often inferior to 1, given productivity gains.

This calculation is clearly very sensitive, notably in case of values close to 0 for the variation of GDP. We therefore calculate average values over several years, by leaving aside the rare years that show stagnation of GDP, and by focusing our analysis on the 1995-2007 period to define this growth regime. For the 4 countries, we clearly note 2 sub-periods, with a slight drop around 2001-2002. These sub-periods are also noticeable in the GDP growth regime. Here are a few milestones for other OECD countries.

### Graphic n°3: Wealth of employment growth in the 90' and 2000'



Over this period, Germany records a 0.55 elasticity, with 2 very different periods: very weak elasticity (0.04) from 1995 to 2001, then after 2 years of GDP stagnation, the elasticity values are very strong between 2004 and 2007 (0.84). With a growth remaining low in 2004 and

2005, the labor market reforms, analyzed later on, play a key role in the regulation of employment.

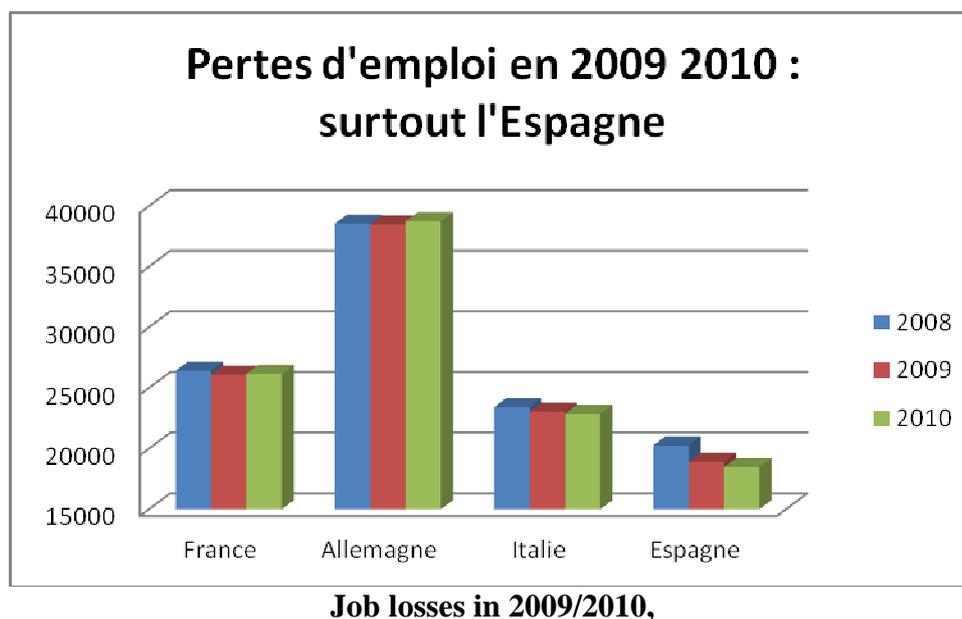
Spain is a rather rare case, with an employment elasticity superior to 1 over 10 years: first a value of 1.02 from 1995 to 2001, then of 1.16 from 2002 to 2007. Employment growth is more than proportional to GDP growth. The variation of the global indicator used by the OECD for productivity (work productivity for the whole economy) is in general close to 0 over the first period.

During the 1997-2007 period, France experiences elasticity similar to Germany, but the evolution is reversed; the value of 0.55 between 1995 and 2001 falls to 0.39 between 2004 and 2007. The reforms of the labor market are besides less determining between 2003 and 2007, before accelerating.

In Italy, the whole period is characterized by a high average elasticity of 0.77. There are also 2 significant periods: the first one runs from 1995 to 2001, with a weaker elasticity and a value of 0.49. The second period, between 2002 and 2007, shows an elasticity of 1.27, or 0.73 if we do not take into account 2002 et 2003 that are rupture years. Anyway, we note a visible progression of the indicator.

From this point of view, there is thus an opposition, Germany and France having a rather low elasticity (but not very weak compared to the values in Sweden, Japan, the United-States...), Italy and especially Spain recording very high values, also superior to that of other OECD countries, and increasing until 2007. Since we talk about employment in the sense of persons having worked if only 1 hour during the survey period, we can imagine that by nature, these jobs are very sensitive to the economic context, and that their precarious dimension raises the issue we are now going to discuss.

Employment resists very badly in Spain during the 2009 recession, slightly better in Italy and France, significantly better in Germany ( Spain -6.76%, Italy -1.62 %, France -1.2% and Germany -0.18%). So the elasticity value for Germany in 2009 is around 0, and very high again for Spain according to Karamessini's calculations (2011).



### **especially in Spain**

We could thus be tempted to analyze employment elasticity as a sort of bell curve: weak values such as in Japan raise a problem, but high values such as in Spain too.

There are many definitions of labor market flexibility. If this word means that the volume of employment develops in close relationship to the changes in context, we should note that in the OECD countries, Italy and Spain are part of the countries that record a very high elasticity during the 1994-2007 period, France being in the medium elasticity group. On the other hand, Germany is able to go through the severe 2009 recession by focusing on employment stability, with a very strong elasticity from 2004 to 2007. But globally over the whole period, Germany belongs to the medium elasticity group. For the 4 countries, elasticity illustrates a flexibility form close to or above average, from as soon as the 1994-2007 period.

## II/ Making labor markets flexible: comparison between Germany, Spain, Italy and France

### **A/ 1994-2007: Flexibility and the rise of job insecurity**

Before the crisis, flexicurity was at the heart of debates relative to the labor market, the Danish model being the reference. In Denmark<sup>1</sup>, the notion of ‘flexicurity’ is mentioned for the first time in a 1999 publication of the Ministry of Labor (Arbejdsministeriet). From there on, “Interest is focused on what is now known as the Golden Triangle (Madsen, 2006), notion that means the ease of companies to hire and dismiss, a high salary compensation in case of unemployment, and an active labor market policy centered on redeployment and continuous training” (Sondergard, 2008).

On this basis, “The European Union wishes to implement a policy to modernize labor law in each Member State in order to encourage a new dynamic process in terms of growth and security within the Union” (Garabiol, 2007, p. 1). The notions of flexibility and security are the key to this modernization. The European Commission would like to establish flexicurity as the common foundation of the European labor market, ensuring a compromise between flexibility within firms and employee security. Indeed, for the European Commission, growth depends on the capacity of reaction of the market. In parallel, as customs barriers represent an obstacle to exchanges, legislation barriers that split the employment market and could oppose ‘insiders’ who benefit from a high level of employment protection, to ‘outsiders’ to whom much more precarious working conditions are applied, would form an obstacle to the dynamics of the job market. If dismissal costs are high, companies are often reluctant to hire an employee on a permanent contract. This mechanism does not encourage mobility of work and capital factors, and thus becomes an impediment to growth (Garabiol, 2007).

Nevertheless, the ways of implementing flexicurity are various according to countries, labor laws being very different. Social models also being very differentiated in Europe, it is not surprising to distinguish several flexicurity models. The various concepts of social protection systems have indeed allowed the definition of 3 social models: a social-democratic system in Scandinavian countries, a liberal system in Anglo-Saxon countries and a conservative-corporatist system in Continental Europe (Esping Andersen 1990). Then, from 1992, a fourth model appears, the Mediterranean system in the Southern European countries, in which the level of social transfers is low, but relatively compensated by family networks (Leibfried, 1992; Fererra, 1996). If we add to this the differences that exist in political compromises and professional relationships, it is not surprising that the implementation of flexicurity as a new European social model basis follows different approaches according to the countries. We

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<sup>1</sup> The Danish flexicurity model relies on 6 pillars: centralization of employment organizations and social benefits in one single Ministry; greatly simplified labor law, few State interventions in legislation; easy dismissal process for companies; developed social dialog between employers and powerful trade unions; support of employees by the State in case of unemployment, through attractive conditions; strong incentives for the unemployed persons to accept a job (obligation of training, follow-up, financial sanctions...).

therefore find a continental<sup>2</sup> and English<sup>3</sup> conception of flexicurity notably in the typologies proposed (Gaudu, 2010).

In the 4 countries studied, we demonstrate that the implementation of a policy aiming at making labor markets flexible is clearly different according to the countries of the continental group (France and Germany) and Mediterranean group (Italy and Spain). It is stronger in Spain and Italy than in Germany and France. At the same time, practices for securing employment, which normally underlie the market 'flexibilization' process, are neglected, provoking a very high increase in job insecurity. By working on both axes, we emphasize 2 combinations of flexibility and security, or of flexibility and insecurity.

### ***Group 1: Spain and Italy combine flexibility and insecurity***

Spain and Italy are characterized by a process of labor market liberalization with an erosion of permanent contracts, that translates into more flexible employment standards. In both countries, the State has played a key role in this process by leveraging legislation.

As soon as 84, Spain implements measures to liberate the labor market, in order to reduce long-term unemployment. The Government first encourages temporary jobs and part-time work. Then in 1994, it introduces new legislation to liberalize hiring<sup>4</sup> and facilitate its conditions, with annualization of working time and facilitated dismissal conditions (IRES, 2000). So from 1994 to 2007, Spain registers strong growth that results in increased employment<sup>5</sup>, but with at the same time development of the job insecurity rate. This is shown in the evolution of the previously mentioned elasticity.

This change is strongly questioned by trade unions (CCOO and UGT). In 1997, an Interprofessional Agreement concerning stability of employment is signed. The compromise offers more flexible dismissal conditions concerning employees with permanent jobs, in return for moderate use of temporary contracts and stabilization of precarious jobs. From 2001 to 2006, new labor market reforms try to limit the recourse to temporary contracts. The national agreement aimed at improving growth and employment, signed on May 9 2006, forbids unjustified successive temporary contracts, preserves the employees' security and gives more flexibility to employers<sup>6</sup>. Nevertheless, Spain remains the first country to rely on temporary contracts in Europe. In 2009, 25.4% of Spanish workers have temporary contracts<sup>7</sup>, compared to 14.5% of German workers, 13.5% of French workers and 12.5% of Italian workers. Moreover in Spain, there is a strong assimilation of temporary contracts and job

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<sup>2</sup> Following this concept, society must give the employee a position in the group according to several elements: high level of labor market legislation, large funding of transition periods, financial and legal tools to secure career paths.

<sup>3</sup> It entails giving tools to people with regard to the labor market. The liberal State must help them with 4 elements: highly developed professional training, efficient work placement service, very good policy to fight discrimination, minimum unemployment insurance.

<sup>4</sup> End of the placement monopoly of the public employment service, legislation concerning temporary work agencies.

<sup>5</sup> "Employment increased between 1994 and 2007 by more than 8 million persons, that-is-to-say 67%" (Toharia, 2008, p. 15).

<sup>6</sup> Since July 1 2006, when the reform was enforced, any worker who signs at least 2 successive temporary contracts, having occupied the same position for a minimum of 24 months during the last 30 months, can have his contract changed to a permanent one. And if the employer transformed a temporary job into a permanent job before the end of 2006, he benefited from a deduction (between 800 et 1,200 euros per year) from this employee's social contributions, for a period of 3 years.

<sup>7</sup> They were 29.3% in 2008. The decrease is explained by the crisis, the temporary workers being the first affected.

insecurity, and this temporary dimension is a key element in relationships between social players (Miguélez, Prieto, 2008). The problem is that temporary jobs are also jobs where working conditions and salaries are poor. The minimum wage is of 580 euros in 2006 with 34% of the population earning a salary under 1,000 euros (22% of men, 51% of women). Low social benefits render these situations all the more complex. Trade unions have launched a campaign “POSA’T A 1,000 euros” on the theme “No salary under 1,000 euros”. But the affiliation of employees who have a precarious contract being very limited, it is difficult to defend their interests.

Italy enters the process of making the labor market more flexible later on, but does it in a striking way (Treu Law dated 1997 and Biaggi Law dated 2003). This trend is linked to high professional insecurity with a significant development of temporary and almost independent activities. This policy aims at helping the insertion of people in difficulty and at fighting undeclared work, but using these forms of employment encourages flexibility in social relationships, notably in the rich regions of Northern Italy, rather than reducing unemployment of people facing difficulties (Dufour C., Hege A., 2005). The number of atypical contracts increases, without any warranty in terms of duration and minimum wage, with a visible impact on elasticity. There are thus project collaboration contracts where the persons have a status of independent collaborator over a specified period (duration of the project). These renewable contracts represent an unlimited way to combine the constraints of being employed with the constraints of being independent, and do not respect the rules applying to labor law. They are notably used by call centers and companies which offer services to individuals. Within the range of measures introducing flexibility, there are also occasional cooperation contracts which are temporary independent work contracts for a specific period (maximum 30 days per year for less than 5,000 euros). There are forms of partnerships where the person participates in gains and losses. Lastly, interim contracts (24 months maximum) also exist.

Since 1998, the 3 Italian trade unions, CGIL (Confederazione Generale del Lavoro), CISL (Confederazione Italia Sindacati Lavoratori) and UIL (Unione Italiana del Lavoro) fight against the development of these new forms of employment, but the workers who sign unstable contracts are logically difficult to affiliate and work with.

### ***Group 2: France and Germany combine flexibility and relative security***

Germany and France enter the labor market liberalization process in a smoother way, and especially with less insecurity.

In Germany, the mechanisms aiming at making the labor market more flexible are introduced through legislation: the reform initiated by the Hartz Laws (I to IV) from 2002 to 2005<sup>8</sup> introduces a deep change in the organization of social protection, particularly reducing the level and duration of benefits, and intensifying the conditions of access to unemployment compensation (Veil, 2005; Giraud, Lechevalier, 2008). Flexibility is notably introduced through modifications relative to the scope of enforceable labor law. “In companies with fewer than 10 employees, newly hired persons do not benefit anymore from the strict

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<sup>8</sup> End of 2002: the Hartz I and II Laws are mainly aimed at boosting and transforming the public service for employment; January 1 2003: the Hartz III Law establishes a new form of piloting, management by objectives with supervision of results through the transformation of the Federal Employment Office into a Federal Employment Agency with national headquarters and regional/local structures; January 1 2005: the Hartz IV Law introduces a rupture in the unemployment compensation system, with notably a merging of social benefits and unemployment compensation II, subject to active job seeking.

protection rules against unfair dismissal. 'Simplified' dismissal rules are applied. Employees can notably receive a bonus if they accept not to take legal action. Moreover, in companies with more than 10 employees, the minimum working time to obtain this protection is raised to 6 months.

Also a reform relative to the use of interim contracts now enables employers to transform the interim contract into a temporary contract, if it is possible to synchronize the duration of the working contract with the duration of the mission in the company" (Garabiol, 2007, p.6).

The strong development of mini-jobs with monthly wages that cannot be superior to 400 euros reveals a trend that hardens the definition of acceptable jobs and introduces job insecurity. Moreover, the pressure on lowering wages is general, a situation that is even more serious in Germany as there is no agreed professional minimum salary, the minimum being established by each sector's Collective Agreement. The average salary is between 9 and 10 euros per hour, but more and more persons earn between 3 and 4 euros. Minimum wages decided through Collective Agreements now appear as insufficient protection. The question of establishing a minimum salary is debated in Germany, and the public opinion is more and more in favor of it: "A minimum salary would compensate the weakening of the collective negotiation system. Above all, it would enable us to stop this pressure on decreasing salaries" (Horn, 2010). Trade unions among other things require that after 3 months of work in the same type of position, employers cannot pay less than 7 or 8 euros per hour. The process of making the labor market flexible in Germany, as for Italy and Spain, has introduced insecurity, but in a less systematic way. The range of precarious jobs is less extended, and the quality of the professional training system enables a large number of young people to avoid atypical employment forms. Besides, high elasticity levels are reached much later than in Italy and Spain.

The liberalization phenomenon of the labor market is less significant in France than in the 3 other countries. France is indeed characterized by an operating mode of its labor market that is rather rigid, with many complex regulation measures (IRES, 2000). Nevertheless, it has escaped from the development of atypical contracts, and has implemented an active inclusion policy with pressure on returning to work (auto-entrepreneur, Active Solidarity Benefits...). This Active Solidarity Benefits (RSA) enforced in metropolitan France on June 1 2009<sup>9</sup> is a program encouraging people to find a job, but it could imprison them in low quality and often part time jobs.

"Employers have recourse to more and more precarious contracts (temporary, interim) to be more flexible, thus creating a dual labor market" (Gautié, 2006, p. 93). From 2004, deregulation orientations are decided. The Cahuc-Kramarz (2005) report focuses on this inequality problem linked to the gap between permanent and temporary contracts, and to the regulation of dismissal on economic grounds<sup>10</sup>. The objective is to suppress temporary contracts (CDD) and to deregulate dismissal on economic grounds within one single permanent contract (CDI). This unique work contract has not been implemented, social

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<sup>9</sup> The RSA, Active Solidarity Benefits, can be given to people with limited revenues who already work. Its amount depends on the family situation and professional revenues. It can be subject to an obligation to undertake action for professional and social insertion. It replaces the Minimum Insertion Revenue (RMI), the Isolated Parent Allocation (API) and some temporary lump sums as a bonus for returning to work.

<sup>10</sup> Dismissal on economic grounds is linked to very strict vocational rehabilitation procedures, but these procedures are often bypassed at the expense of fragile and less informed employees (Cahuc, Kramarz, 2005, p. 13).

partners having refused it. The law on labor market modernization<sup>11</sup> also introduces the principle of 'French' flexicurity. It establishes the permanent contract as the contract by default, but modifies the labor law relative to contract execution and breach (lengthening of trial periods and authorization to renew them subject to the sector's agreement, creation for engineers and executives of a 'mission contract' of maximum 18 months and maximum 36 months, conventional contract breach). With this law, breach possibilities without dismissal could be multiplied and dismissals facilitated. As for employees, they have obtained higher severance payments and the upholding of their rights in case of unemployment (notably for training). Problem: some measures are subject to legislation, others to future professional negotiations such as the increase of severance payments for young people, the creation of a vocational evaluation, the improvement of orientation and transferability of rights. Negotiations will thus be essential to really secure professional life, together with the respect by the Government of the balance between deregulating and securing. In 2009, a National Interprofessional Agreement complements the 2008 measures with a new law on vocational training, establishing the Joint Fund for securing careers. With regard to the other countries, the measures come later: the reduction of working time and jobs for young people, allow rather high elasticity until 2002, followed by a period less fertile in changes until 2008-2009. Overtime tax exemption has probably slowed down the progression of employment elasticity.

Faced with the increase of flexibility, social inequalities explode in the 4 studied countries. Nevertheless, the level of employment insecurity is lower in the second group of countries. This historical move back concerning the development of flexicurity in the 4 countries clearly shows that the introduction of flexibility elements in the labor markets is initiated by the State and boosted by the modifications in labor law, and that the measures to secure careers paths depend on collective negotiation.

We then propose to review the rise of job insecurity and the institutionalization of atypical jobs in the 4 countries, while observing the impact of the crisis. We try to analyze how each country has reacted, and if specificities strengthen or on the contrary tend to decrease.

## **B/ Impact of the crisis on the flexibility dynamics of labor markets**

The 2009 crisis results in very serious employment deterioration in most of the European countries, by hitting people who already have a fragile relationship to employment. The impact of the crisis is variable from one country to another, depending of the functioning of labor markets and the way the State intervenes. We note that the more flexible labor markets do not resist the crisis better, and that in each country impacted, inequalities and job insecurity are getting worse, unemployment impacting the most vulnerable categories. From this point of view, the crisis in Spain is extremely serious. Except for Germany, since the beginning of the economic and financial crisis the countries studied record huge job losses, from 1.6% in France to an unprecedented drop of 7% in Spain (see point I). The ranking of the 4 countries before the crisis is no longer relevant, the adjustment mode chosen by the players in terms of employment management having reinforced national specificities and widened the differences between each country.

If the word 'flexicurity' has temporarily disappeared from political speeches, adjustment measures with regard to the crisis are inspired by the flexibilization mechanisms of the labor

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<sup>11</sup> Law n° 2008-596 of June 25 2008 that follows the National Interprofessional Agreement (ANI) signed on January 21 2008 by 3 employer organizations (MEDEF, CGPME, UPA) and 4 out of 5 representative trade unions at national level (CFDT, FO, CFTC, CFE-CGC).

market<sup>12</sup> (Seifert, Tangian, 2008), either internally through working time and salary reductions in Germany, or externally through a decrease in the number of jobs such as in Spain, France and Italy which implement more moderately a mix of both strategies.

The following charts enable us to analyze the situations of the target groups (women, young people and seniors) and emphasize critical moments in life according to age, before and after the crisis. Eurostat delivers some relevant indicators, homogenous and available for all 4 countries, which allow an approach to job insecurity<sup>13</sup>.

**Chart n°2: Employment rate in 2008 and 2010**

	Employment rate of young people		Employment rate of women		Employment rate of men		Employment rate of seniors	
	2008	2010	2008	2010	2008	2010	2008	2010
<b>EU (27 countries)</b>	37.6	35.2	59.1	58.2	72.8	70.1	45.6	46.3
<b>Germany</b>	46.9	46.2	65.4	66.1	75.9	76	53.8	57.7
<b>Spain</b>	36	28	54.9	52.3	73.5	64.7	45.6	43.6
<b>France</b>	32.2	31.4	60.4	59.9	69.6	68.3	38.2	39.7
<b>Italy</b>	24.4	21.7	47.2	46.1	70.3	67.7	34.4	36.6

*Source: Eurostat 2011*

**Chart n°3: Unemployment rate in 2008 and 2010**

	Employment rate of young people		Employment rate of women		Employment rate of men		Long-term unemployment rate	
	2008	2010	2008	2010	2008	2010	2008	2010
<b>EU (27 countries)</b>	15.8	21.1	7.6	9.6	6.7	9.7	2.6	3.9
<b>Germany</b>	10.6	9.9	7.7	6.6	7.4	7.5	4	3.4
<b>Spain</b>	24.6	41.6	13	20.5	10.1	19.7	2	7.3
<b>France</b>	19.3	23.7	8.4	10.2	7.3	9.4	2.9	3.9
<b>Italy</b>	21.2	27.8	8.5	9.7	5.5	7.6	3.1	4.1

*Source: Eurostat 2011*

<sup>12</sup> There is a differentiation between internal and external flexibility (Atkinson, 1984). The first one designates a set of various strategies that allows an adapted implementation of labor use according to the changing conditions in demand, without relying on the external labor market. These measures include adaptation through working time (numerical flexibility), revenue (financial flexibility), work and qualification organization (functional flexibility). In comparison, external flexibility is essentially based on ‘traditional’ adaptation of the number of employees (through dismissals and hires), and then on temporary and interim employment together with ‘transfer’ companies, in an increasing way.

<sup>13</sup> We defined this notion of job insecurity in 2010, “New dialogues in new spaces, European overview”, D. Degraeve, D. Desmette, E. Mangez, M. Nyssens, P. Reman, *Economic transformations and innovations in Europe: what exists to the crisis? Interdisciplinary considerations*, Presses Universitaires de Louvain, PP 449-484.

**Chart n° 4: Young people having prematurely left the academic and training system**

Young people having prematurely left the academic and training system *		
	2008	2010
<b>EU (27 countries)</b>	14.9	14.1
<b>Germany</b>	11.8	11.9
<b>Spain</b>	31.9	28.4
<b>France</b>	11.9	12.8
<b>Italy</b>	19.7	18.8

*Source: Eurostat 2011*

\* % of the population (18-24 years old) following no studies or training, with an academic level of maximum secondary education.

France, Italy and Spain have high unemployment rates of young people, which is not the case for Germany which relies on efficient vocational training in terms of professional insertion<sup>14</sup>. The transition modes from school to employment are very different from one country to another (sandwich-course, length of studies, employment-study combination...) and impact unemployment rates (Dayan, Harfi, 2011). The young people's employment rate in Germany is close to that of the rest of the working population. The 2009 crisis has strengthened these trends, especially in Spain (+ 17 points between 2008 and 2010). We nevertheless note that concerning Spain, the crisis results in the decrease of the rate relative to young people exiting the academic system at an early stage. Indeed in 2008, 31.9 % of young people aged 18 to 24 come out of the academic system without exceeding secondary education level<sup>15</sup>. The rate is of 28.4% in 2010. School is a waiting line, a refuge with regard to the current high unemployment rate. The Spanish labor market shows a very paradoxical dimension: the young people's unemployment rate is considerably above the European average and the 3 other countries studied, youngsters exiting the school system very early, but their unemployment rate is relatively good. This is a strong indication concerning the quality of the jobs found. Sandrine Morel, in an article published in *Le Monde* dated August 26 2011, demonstrates that the lack of future prospects for young Spanish people lead to massive emigration: "27,000 departures from Spain during the first semester of 2011. In 2009, the migratory balance of Spanish citizens has become negative". The Indignados' action illustrates this situation.

As for Germany, the country does not seem very impacted by the crisis. It has even reduced its long-term unemployment rate, which was its weak point. The rigidity of the labor market, the amount and duration of unemployment compensation were often pinpointed to explain this high structural unemployment rate (Capet, 2004). Until recently, there have been few low-paid jobs. Incitation to work, that depends on the relationship between salary and unemployment compensation, has remained low for a long time, encouraging the danger of inactivity. The deregulation of the labor market introduced through the Hartz reforms that brought higher forced flexibility and mobility together with diminution of employees'

<sup>14</sup> When comparing the young people's unemployment rate on an international level, as for employment rates, we have to keep in mind the differences in category ranking of young people according to the countries, sometimes in the working population (training, sandwich courses) sometimes in the inactive population (academic status).

<sup>15</sup> 11.8% in France; 19.7% in Italy; 11.8% in Germany.

protection, is starting to translate into statistics. Adjusting to the crisis and saving jobs is being implemented via short-time working and internal flexibility, decrease in working time and salaries. “Short-time working measures are widely and spectacularly applied in Germany, impacting 1.53 million employees in 2009 with strong State support”<sup>16</sup> (Erhel, 2010, p. 11). The suppression of Working Time Accounts also plays a major role in stabilizing employment during the crisis.

Nevertheless, employment stability is obtained at the cost of higher job insecurity for a large number of employees, and the regulation mechanisms used cannot be implemented in the long term, as a social explosion could take place. Germany is becoming a two-speed society, the latest labor law having institutionalized job insecurity and segmented the labor market. “It is the developed country where inequalities and poverty have most increased: 20% of poor workers, retired people having to go back to work to complement their low pensions, mini-jobs, non-qualified jobs paid 1 euro per hour” (Meillassoux, 2011). The Hartz reforms together with the liberalization of the labor market result in a change in status, from unemployed to poor worker. If Germany records a historical figure of 3 million unemployed persons, we should not forget that the country counts 9 million precarious workers.

As for France, charts 2 et 3 show that the employment statistics are getting worse in all categories, except for seniors. On the contrary, the growth of the employment rate for the 55-64 category is recovering. France is often pinpointed for its bad results in terms of young people’s unemployment. But the situation is contrasted: if qualified young people are less impacted, the crisis worsens their situation. Their employment is particularly sensitive to economic downturn (Dayan, Harfi, 2011). They are the first hit, as they often have precarious, interim or temporary contracts, and are thus easier to lay off. Faced with the degradation of its labor market, France relies on internal flexibility, but more moderately than Germany, and salary increases, although slowed down, remain positive (Cochard, Cornillau, Heyer, 2010). End of 2008 and beginning of 2009, short-time employment measures are reformed to reinforce their role by extending legal duration and increasing compensation levels<sup>17</sup>. But the study piloted by O. Calavrezo, R. Duhautois and E. Walkowiak (2009) shows that relying on short-time working does not reduce dismissal on economic grounds, but seems to be warning: the use of short-time working is the ultimate solution before laying off.

The rise in unemployment and job insecurity (interim, part-time, alternating between employment and unemployment) results in a worrying increase of the poor worker category in France. In the European statistics, the poverty threshold is calculated at 60% of the median income<sup>18</sup>, that-is-to-say 949 euros per month in 2008. With this indicator, 13% of the French are below this median income, after social transfers (1 French person out of 8 is poor). According to Jacques Rigaudiat (2007), we have entered a new proletarian order where job insecurity does not only impact people who live on the margin of society, but is at the heart of our productive system. The sociologist Serge Paugam (2010) explains that a new status has been created, that of the poor worker receiving benefit. The author underlines that in France, “The recent transformation of the Minimum Insertion Revenue (RMI) into the Active Solidarity Revenue (RSA) reinforces that representation of poverty” (Paugam, op. cit., p. 12). Indeed, this policy encourages individuals to work, even for a low salary, and to cumulate

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<sup>16</sup> 60% of normal wages for non-worked hours, 67% for employees with one dependant child.

<sup>17</sup> The maximal length of short-time working for an employee has shifted from 4 to 6 consecutive weeks. From a finance point of view, the employer now pays the employee a minimum of 60% of his gross salary (50% before the reform) with a minimum amount of 6.84 euros per hour (4.42 euros before the reform).

<sup>18</sup> In France, this calculation is based on 50% of the median revenue.

support compensation and benefits. The risk is to see them enter a chronic sub-wage system. This status is part of a “generalized mode of employment of the poorest in the most degraded segments of the labor market, without offering them any clear outlook in terms of training or promotion” (Paugam, op. cit., p. 13).

Data concerning Italy (charts 2 and 3), notably for women and young people’s employment rate, can be related to the Italian family model, in which women tend to stay at home and youngsters live longer with their parents. The chart reveals that Italy has difficulties with both extremes of its age pyramid. For young people, initial training does not play a significant role in their insertion in the labor market; access to employment is difficult and professional insertion represents a long process (Couppié, Mansuy, 2000). As for the poor seniors’ employment rate in Italy, it is to be underlined that the legal retirement age is low. The Government has changed it from 57 to 58 in 2008 with 35 contribution years, then to 60 in 2011 with 36 contribution years. The crisis highly impacts young people and their unemployment rate (+ 6.6 points between 2008 and 2010). The great number of atypical contracts allows quick adjustment of the employment volume. Italy numbers many employees depending on a precarious contract, many pseudo-independent workers who can be immediately dismissed at no cost at all. As for more stable jobs, Italy like Germany, implements working time adjustment on a large scale: “Working time has dropped by nearly 4% (5% in industry) mainly as a consequence of the development of short-time working” (Cochard, Cornilleau, Heyer, 2010, p.189).

Generally speaking, this study shows that in all 4 countries, the flexibility process relative to labor markets results in a growing segmentation of these markets, with an accrued marginalization of part of the workers. The implementation of the flexicurity model is questioned by the crisis. One of the model’s objectives, that is to reduce fragmentation of the labor market between permanent and precarious jobs, does not resist the crisis: the first victims are temporary employees, and the segmentation of the labor market worsens.

## **Conclusion**

The deterioration of employment conditions in most European countries induces an increased risk of poverty. The current levers aimed at protecting employment, notably the development of internal flexibility, are not sustainable in the long run with a recession that could worsen. The fear is that ongoing austerity plans may exacerbate inequalities. We can question the current arbitration between competitiveness and the social model. Social models are trapped in an “economic war” (Askenazy, 2010).

Within its Europe 2020 strategy, The European Union has reasserted in its Social Agenda its will to reinforce the flexicurity model aiming at simultaneously improving flexibility and security in the labor market. But considering the employment elasticity indicator together with qualitative analyses, the level reached by flexibility is already high in Europe among the OECD countries. The priority should be focusing on security for all jobs in an economy based on knowledge, preserving and developing know-how and innovation capacities.

In this situation, the involvement of social partners will have to be particularly strong to maintain the effort of securing career paths, with regard to the liberalization of labor markets and the decrease of social protection.