Labour Market Trends and Problems in the EU's Central and Eastern European Member States: Is Flexicurity the Answer?

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Abstract
Throughout the 1990s, international organisations, such as the International Monetary Fund mainly based their policy proposals for transition economies and the high unemployment, low growth countries in Western Europe, on economic "orthodoxy". This approach predominantly followed neoclassical economics in which market liberal solutions predominate. These suggestions were controversial; the early results of these policies appeared to be disappointing. Policymakers sought alternative reform proposals and the idea of "flexicurity" has gradually emerged to the political buzzword. Flexicurity combines flexibility with security and suggests that rather generous unemployment benefits and spending on active labour market policies can be aligned with a flexible, employment-friendly labour market. Originating in Denmark, the European Commission and the International Labour Organisation have promoted flexicurity more or less independent of specific single country cases, and based their approach on more abstract, generalised relationships between flexibility and security. These bodies argue for an alternative policy to pure orthodox deregulation and liberalisation for the member states of the European Union (EU) and the former transition economies that joined the EU since 2004. After a review of common labour market-related characteristics and problems of the EU's central and eastern European members, the article summarises and critically evaluates the main elements of flexicurity suggestions. It further compares them to the relevant policy proposals based primarily on more orthodox economic analysis. The analysis shows that several preconditions for a successful flexicurity strategy are still lacking across the new member states. Moreover, the article demonstrates that current proposals by the critics of a single-minded flexicurity approach by no means always disregard potentially positive effects of improving the supposed trade-offs between flexibility and security. At least a limited convergence between flexicurity and a renewed orthodoxy in the economic mainstream can be detected.

Keywords
Central and Eastern Europe; Convergence; Employment; Flexicurity; Labour market- related institutions; Transition; Welfare regimes

"FLEXICURITY" HAS BECOME A BUZZWORD AMONG POLICYMAKERS IN EUROPE BECAUSE it suggests that rather generous unemployment benefits and spending on active labour market policies can be aligned with a flexible, employment-friendly labour market. In other words, the idea is to balance employers' needs for flexibility in an environment where companies face the challenges of increased competition – for example, due to

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globalisation – with workers' need for security and (working-time) flexibility in a way that allows high economic growth and good labour market performance.

The approach originates from Denmark's successful combination of relaxed hiring and firing rules (flexibility), comparatively generous wage replacement rates (income security) and extensive support for the unemployed to return to work (employment security). The European Commission views Denmark's success as an example of best practice and encourages all European Union (EU) member states to move towards such a pathway in their labour market policies. Flexicurity has often been set broadly in contrast to flexibility-enhancing approaches advocated by the International Monetary Fund's (IMF), the World Bank or the Organisation for Economic Co-operation and Development (OECD). These institutions regard more flexibility as the panacea to reinvigorate regulated labour markets with persistently high unemployment and to bring about more growth through increased employment. The analytical framework of flexicurity is also said to have proved to be "an extremely powerful and relevant concept for transition economies of Central and Eastern Europe, offering an alternative to the 'pure' flexibility policy prescription promoted in that region" (Cazes 2008: 10).

Against this background the question may be posed whether the flexicurity approach is adequate for the EU's Central and Eastern European member states (CEECs) that joined the European Union (EU) since 2004 (i.e. Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, Slovenia (May 2004), Bulgaria and Romania (January 2007). After a thorough review of the most important, common labour market-related characteristics and problems of the CEECs, the article summarises and critically evaluates the main elements of the flexicurity argument. It further compares flexicurity to the relevant policy proposals based primarily on more orthodox economic analysis, which have been suggested by certain international organisation such as the IMF, World Bank and OECD. On the one hand, the analysis shows that several preconditions for a successful flexicurity strategy are still lacking across the CEECs. This may explain why, until recently, empirical evidence has found little substance and convergence among reform pathways that are said to be based, at least in parts, on flexicurity in the CEECs. On the other hand, current proposals by the critics of a single-minded flexicurity approach do not always disregard the potentially positive effects of improving the (apparent) trade-offs between flexibility and security. Furthermore, a limited convergence between flexicurity and a renewed orthodoxy in the economic mainstream can be detected.

Common labour market characteristics in the CEECS

In the former centrally planned economies of 'real socialism', prices and wages were not determined by market forces or bargaining between employers and employees and their representatives; rather they were determined directly or indirectly by government directives. In this system, workers enjoyed a high degree of employment protection (Kohl 2008: 1). In fact, the labour code did not allow laying off redundant workers for economic reasons. Full-employment was guaranteed by the state despite its negative effect on productivity and low efficiency of production. The economic problems that emerged during times of increased structural change, due to globalization and new information and communication opportunities, led to the collapse of the communist regimes across Eastern Europe during late 1989. This resulted in a process of triple transition (political, economic and social) which saw the CEECs restructure their economies along market lines. The need for rapid structural adjustment of the CEECs was particularly reflected in profound amendments to national employment protection laws immediately after the collapse of the former communist regimes. "The objective was to facilitate workforce adjustment for firms in order to make enterprises more flexible and economically

competitive while guaranteeing solid employment protection for workers comparable with that prevailing in developed market economies. In reality it meant substantial moderation of workers' protection in general, which was also made possible due to the weakening of trade union power" (Cazes and Nesporova: 2003: 7). As a result of all these changes, it is undisputed that after the market-oriented restructuring accompanied by negative economic growth and strong turbulence in labour markets, as well as "much hardship and disillusion" (McAleese 2004: 339), the economies' average production has outperformed the former system. Real Gross Domestic Product (GDP) between 1989 and 2007 increased across all CEECs, ranging from 7% in Bulgaria to 69% in Poland (Wagener *et al.* 2009: 299).[1] It has to be acknowledged that "relative to the dramatically different starting conditions there has been substantial convergence towards continental European labour market outcomes and institutions" (Huber 2003: 155), despite some remaining differences particular until the EU accession process started. The following facts describe the main common contemporary characteristics of the CEECs with regard to outcomes, institutions and remaining problems. Since 2000 the following patterns can be detected:

Unemployment: In the four years prior to the accession of eight CEECs, the average unemployment rates of these countries were roughly three to four percentage points higher than in the EU-15. The average unemployment rate of the CEECs decreased by 1-2 percentage points per year between 2004 and 2007. At the same time the average unemployment rate in the EU-15 decreased more slowly (see table 1). The matching of the average unemployment rates is one element of a convergence of labour market conditions between the CEECs and the EU-15.

Table 1: *Comparison of average unemployment rates in EU-15 and CEECs between 2000 and 2007*

	Years							
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Average unemployment rates in EU-15	7.7	7.2	7.6	7.9	8.0	8.1	7.7	7.0
Average unemployment rates in CEECs	10.8	11.6	12.4	11.6	11.5	10.6	8.9	6.9*
Notes: * without Romania, where data were missing for this computation.								

Source: Brücker *et al.* (2009: 15).

Such a comparison of averages conceals a picture that is more mixed when analysing the CEECs individually. In all countries, apart from Hungary, unemployment decreased in 2007, compared to 2000 and 2004. This trend continued into 2008, when unemployment was lower than in 2007 across half of the CEECs, despite the global economic downturn that affected countries to different degrees depending on their integration into trade and financial markets. In table 2 (below) the final two columns provide information for 2007 on the difference between the actual unemployment rate and the non-accelerating wage rate of unemployment (NAWRU) which is a measure for the tightness of labour markets as well as the long-term unemployment as a percentage of the labour force. Official unemployment was below the estimated NAWRU, except Hungary. This indicates overheating in the labour markets which is confirmed by high inflation rates of close to or

[1] Other GDP increases between 1989 and 2007 were; Czech Republic = 39%; Estonia = 50%; Hungary = 35%; Latvia = 24%; Lithuania = 16%; Romania = 20%; Slovenia = 51%; Slovakia = 54%

above 5% in 2007 across the majority of the CEECs, as well as strong wage increases between 8.1% in Poland and 33.2% in Latvia (Kamps *et al.* 2009: 28). With the development of the economic downturn in 2009 the resulting negative growth rates and rising unemployment in the region affected the high inflation rates and wage increases (Johnson and Turner 2009: 263). The high shares of long term unemployment – in spite of the overheating in the labour markets in four countries, especially in Slovakia, where unemployment that lasts longer than one year is larger than the EU-15 average of 2.8 per cent – meant that this unemployment can be described as structural. In other words, long-term unemployment remains high even as the overall unemployment rate has been substantially reduced. This shows problems of mismatch that need to be addressed in order to avoid overheating during the next upswing in the economy.

Table 2: *Different rates of unemployment in %*

Country	Unemployment rate (UR) in year				UR minus NAWRU** in 2007	Long-term UR in 2007 (% labour force)
	2000	2004	2007	2008*		
Bulgaria	16.4	12.0	6.9	6.0	-0.8	4.0
Czech Rep.	8.7	8.3	5.3	5.0	-0.8	2.8
Estonia	12.8	9.7	4.9	5.1	-1.7	2.3
Hungary	6.4	6.1	7.2	7.7	0.1	3.4
Lithuania	16.4	11.4	4.3	5.4	-1.9	1.4
Latvia	13.4	10.4	5.9	6.5	-1.1	1.6
Poland	16.1	19.0	9.6	7.4	-1.9	4.9
Romania	7.2	7.0	6.4	6.2	-0.2	3.2
Slovakia	18.8	18.2	11.3	9.8	-0.9	8.3
Slovenia	6.7	6.3	4.7	n.a.	n.a.	2.2

Notes: n.a. = not available; NAWRU = non-accelerating wage rate of unemployment; * = WIIW estimate, ** = estimate by Kamps *et al.* (2009)

Sources: Brücker *et al.* (2009: 15), European Commission (2008), Kamps *et al.* (2009: 28) and estimates of unemployment rates for 2008 by European Commission in Johnson and Turner (2009: 262).

Several issues have to be kept in mind when interpreting the data in both tables 1 and 2. Much less generous systems of unemployment assistance than in the EU-15 may lead to underreporting of unemployment in the CEECs. This issue and other factors like higher wages abroad can result in migration from CEECs to other EU countries. A comparison of average unemployment and wage rates between the EU-15 and the CEECs can, therefore, be misleading. For example, if large scale migration occurs and if migrants from CEECs cluster in those EU-15 countries and regions which have high wage levels and low unemployment rates, then this would potentially result in lower wage growth and rising unemployment rates in these 'receiving' EU-15 countries.

Migration has played a role in recent years in some sectors (e.g. health sector in Estonia and Latvia, skilled labour in the industrial and construction sectors more generally) and contributed to a shortage of (adequately skilled) labour. Migration is not the only challenge to labour requirements. Demographic changes including increased life expectancy and falling birth rates mean that populations across the CEE region are aging even faster than those in the old EU (Barysch 2005: 11 and for details FAES 2009: 58-62). According to Kohl (2008: 15-16), this shortage of labour, in part, triggered significant pay increases after EU accession. However, Brücker *et al.* (2009: 169) maintain that labour and

skill shortages should not be attributed solely to international migration or an aging population. Other contributing factors to labour shortages include business cycle effects, younger people staying longer in education, or insufficient regional mobility within countries. Based on the most recent evidence, a consensus appears to be emerging with regard to the labour market effects of immigration in Europe "that such effects are small to negligible" (Brücker *et al*. 2009: 169).

Employment: The unemployment indicators are to some extent flawed, as shown above. Therefore, additional information is useful. It is particularly important, at least in middle- or high-income market economies, to see what percentage of the population is in gainful employment and, therefore, earns its own income and contributes to wage tax and social security payments towards the state and social security institutions. The employment-to-population ratio, or employment rate, measures the number of employees, both the self-employed and those employed by someone else (though not the unemployed), as a ratio of those of employable age amongst the whole population, or amongst a certain age group (Funk 2004: 23). This relationship is particularly appropriate if high employment rates do not hide significant factual problems in labour markets. This is often the case in low-income economies, where jobs of low productivity in the informal sector dominate and social protection systems are lacking, such as the transition countries of the Commonwealth of Independent States (Rutkowski 2006: 38). This indicator is especially useful if average hours of work are high, as is the case in the CEECs. This is due to the dominant role of the full-time unfixed standard employment relationship in the official labour market, which stems, to a large extent, from low hourly wages and a comparatively high payroll tax burden and the resulting low popularity of part-time jobs in the CEE region. Across the region, with the exception of Poland and Slovenia, levels of fixed-term contracts are below the EU-15 average. In addition, part-time employment was always less than half the rate of the EU-15 on average, and in some cases much lower (see table 3). Indeed, partly in order to earn sufficient net-incomes, hours worked in the CEECS "tend to be substantially higher – by up to 30 percent – than in EU-15" (IMF 2008: 6). The rather low average figure for fixed-term contracts masks the fact that this result often does not hold true for younger persons. In Poland and Slovenia, for example, more than half of all young workers are on limited duration contracts, but many of them would prefer a permanent employment relationship (Barysch *et al.* 2008: 86).

Table 3: *The role of the classic more flexible non-standard employment relationships in the CEECs compared to the EU-15 average.*

Country	Part-time employment		Fixed-term contracts	
	2000	**2007**	**2000**	**2007**
Bulgaria	3.2*	1.7	6.3*	5.2
Czech Rep.	5.3	5.0	8.1	8.6
Estonia	8.1	8.2	3.0	2.1
Hungary	3.5	4.1	7.1	7.3
Lithuania	10.2	8.6	4.4	3.5
Latvia	11.3	6.4	6.7	4.2
Poland	10.5	9.2	5.8	28.2
Romania	16.5	9.7	2.8	1.6
Slovakia	2.1	2.6	4.8	5.1
Slovenia	6.5	9.3	13.7	18.5
EU-15	**17.7**	**20.9**	**13.5**	**14.8**
*2001				

Source: European Commission (2008)

Regarding different forms of dependent work (i.e. differing from the unlimited standard employment relationship (from 9 to 5, 5 days a week)), one must not forget the differences to the EU-15 with respect to self-employment before taking a closer look at the statistics of total employment. Across the CEE region self-employment ranges from less than 10% in countries like Estonia to more than 30% in Romania (with slight decreases in most countries, apart from Slovakia recently). This is by several percentage points higher than in EU-15 countries. In the latter countries it accounted for about 15% of total employment between the years 2000 and 2007 (table 4). On the one hand, the higher percentage rate reflects people having been pushed or pulled into self-employment by lack of work opportunities under difficult labour market conditions or higher expected earnings than if they were dependent workers. The push-factor appears to be more important, however. This means that self-employment figures include a large group of subsistence workers, often in the agricultural sector, with low value-added activities, for whom unemployment is not a viable alternative. On the other hand, the number of self-employed is also inflated, as in quite a few cases there is little difference between dependent wage employment and self-employment, although there is no corresponding difference in the nature of jobs. Bulgaria and Poland are countries where, for example, some categories of health care sector employees were turned into independent, self-employed contractors (see Rutkowski 2006: 13-14).

Table 4: *Self-employed as a percentage of total employment.*

Country	**Year**		
	2000	**2004**	**2007**
Bulgaria	28.2	28.5	26.6
Czech Rep	17.4	18.8	18.2
Estonia	9.0	9.6	9.1
Hungary	15.1	14.2	12.4
Lithuania	19.7	18.7	14.0
Latvia	15.0	13.2	10.8
Poland	27.4	26.7	25.0
Romania	n.a.*	31.9	31.8
Slovakia	8.3	12.3	13.2
Slovenia	18.5	17.8	17.0
EU-15	**14.5**	**14.3**	**14.3**
Notes: *n.a. = not available			

Source: European Commission (2008)

The following employment figures contain the above mentioned specific forms of employment if they are not offered in the shadow economy. As a result of the transformation process, we saw a long and persistent reduction in regular employment rates in the CEECs to levels which were, on average, lower than those of the EU-15 member states. In the year 2000, for example, the total employment rate amounted to 63% in the EU-15. Across the CEECs, with the exception of the Czech Republic, this rate was lower (see table 5). Comparing the developments since 2000 demonstrates, however, a general improvement in total regular employment. This is also reflected in the statistics for specific groups, women and older workers. The EU set targets for these groups will actually be obsolete for some time due to the widely unexpected downturn in 2008/2009. They will, however, most likely play a vital role again once the recession ends. Nonetheless, the figures for 2008 (not in table 5) demonstrated that the total employment rate in the CEE countries ranged from 57.8% in Hungary to 69.8% in Estonia. This was just below the target rate of 70%. Lithuania (53.1%), Latvia (59.4%) and Estonia (62.4%) all reached the Lisbon

strategy target with respect to the employment rate of older workers. This latter rate is 50% and is related to workers aged between 55 and 64 years (Massarelli 2009: 1).

Table 5: *Total employment rate, employment of women and of older workers in 2007 and their percentage point changes since 2000.*

Country	Total employment rate (%)		Female employment rate (%)		Older workers* (%)	
	2007	**Δ 2007-2000**	**2007**	**Δ 2007-2000**	**2007**	**Δ 2007-2000**
Bulgaria	61.7	+11.3	57.6	+11.3	42.6	+21.8
Czech Rep	66.1	+1.1	57.3	+0.4	46.0	+9.7
Estonia	69.4	+9.0	65.9	+9.0	60.0	+13.7
Hungary	57.3	+1.0	50.9	+1.2	33.1	+10.9
Latvia	68.3	+10.8	64.4	+10.6	57.7	+21.7
Lithuania	64.9	+5.8	62.2	+4.5	53.4	+13.0
Poland	57.0	+2.0	50.6	+1.7	29.7	+1.3
Romania	58.8	+1.2	52.8	+1.0	41.4	+4.1
Slovakia	60.7	+3.9	53.0	+1.5	35.6	+14.3
Slovenia	67.8	+5.0	62.6	+4.2	33.5	+10.8
EU-15	66.9	+3.9	59.7	+5.6	46.6	+8.8
EU-targets	**70%**		**more than 60%**		**50%**	
Notes: Δ 2007-2000: percentage change between 2007 and 2000; * Workers aged 55-64.						

Source: European Commission (2008: 30).

These figures also show that the CEE market economies were similar with respect to employment, and the problems of certain groups more or less resembled those of the medium to low performing ones in the EU-15 in 2007. This is despite the above mentioned fact that informal work, jobs in the production of and commercialisation of legal goods and services that are not registered or protected by the state, is still much more important in several of CEECs than in the EU-15 (OECD 2009b: 1-2; Offe and Fuchs 2007: 13). In addition, even if the very high regular employment rates (with often inefficiently low labour productivity due to disincentives and inefficient organisation of work) in the former socialist states are out of reach and remain so in the future, the average material living standards are higher than ever before, as shown above. The general improvement of employment masks different dynamics and shows unequal changes of employment rates between 2000 and 2007 as a rough comparison (table 5). Starting from a high level of employment, it is generally more difficult to achieve a similar percentage point increase than from a low level. In this respect the situation regarding women often improved less than the one for men. In spite of the above mentioned successes with respect to older workers, countries like Poland and Hungary are still very far away from reaching the employment goal of 50 per cent for this age group. The region's countries differ, however, in their achievements. While Poland's old age employment was almost stagnant, it increased in Hungary between 2000 and 2007 by 10.9% points.

A pervasive problem in the CEE region is still the particularly low employment rate of young people aged 15 to 24 years compared to the EU-15 average of just above 40% since the year 2000. The rates are only similar in Estonia, Latvia and Slovenia to the EU-15. Here we see only about 2.5-6 percentage points lower rates in 2007. In the other countries the rates were on average between 13-20 percentage points lower than in the EU-15 (table 6). They are among the lowest in the EU-27 in Hungary, Poland, Bulgaria and Romania. It is

also possible to highlight the special problem of young people by drawing attention to those young people who are not in employment, education or training (NEET). This may capture the problem of inadequate skills formation and education, and the difficulty in moving from education to work. The EU average for this age group stands at 18% of the population aged 15 to 24 years. According to the European Commission (2009: 58) "this hides considerable variation across Member States, with the lowest NEET rates in Denmark and Netherlands and the highest in France, Italy, Poland, Romania and Slovakia". Moreover, Bulgaria and Romania exhibit particularly high NEET rates among teenagers, "indicating problems of school dropout, lack of training and joblessness" (European Commission 2009: 58).

Table 6: *Employment rates of age group 15-24 years.*

Country	Year		
	2000	**2004**	**2007**
Bulgaria	19.7	21.5	24.5
Czech Rep.	36.4	27.8	28.5
Estonia	28.3	27.2	34.5
Hungary	33.5	23.6	21.0
Lithuania	25.9	20.3	25.2
Latvia	29.6	30.5	38.4
Poland	24.5	21.7	25.8
Romania	33.1	27.9	24.4
Slovakia	29.0	26.3	27.6
Slovenia	32.8	33.8	37.6
EU-15	**40.5**	**40.0**	**40.8**

Source: European Commission 2008.

It is also revealing to take a closer look at the relationship between economic growth and employment in different periods of transition (table 7). The end of the 1990s were characterised by a mixed economic growth experience with rather large fluctuations in single countries. Between 1997 and 2000 six countries showed a higher economic growth rate than the EU-15 countries. Due to the ongoing economic restructuring, employment growth was negative, except Hungary and Slovenia. This can be explained by the necessary adjustment during a restructuring period which regularly leads to a period of low labour market performance in spite of flexible labour markets.

The "pre-accession" and immediate "post-accession" phases of the 2004 eastern enlargement saw a higher economic growth rate in all countries, except Hungary, Poland and Slovenia. Employment growth was no longer negative, with the exception of Poland and Romania and it stagnated in the Czech Republic. Half of the countries displayed lower employment growth rates than the EU-15, despite higher unemployment rates in these economies. Though experiencing high catch-up growth of real GDP in the CEECs, the low, stagnant or declining employment growth in the period mirrored the rather bleak labour market performance in terms of solving the macroeconomic (un)employment problems of that time.

The period 2001 to 2004 was characterised by low growth of real GDP of, on average, 1.6% in the EU-15; the exceptions being Ireland, Spain and the United Kingdom (UK) which experienced more than double this average. During that period, employment grew by only 0.8% per annum in the EU-15, with Germany and Denmark being the worst

performers in this regard displaying negative figures, while only Ireland and Spain experienced noticeable employment growth.

Table 7: *Relationship between economic growth and employment growth.*

	Average annual economic growth 1997-2000	Average annual employment growth 1997-2000	Average annual economic growth 2001-2004	Average annual employment growth 2001-2004	Average annual economic growth 2005-2007	Average annual employment growth 2005-2007	Economic growth in 2008
BL	1.5	-0.4	5.1	1.2	6.2	2.9	6.0
CZ	0.9	-1.2	3.1	0.0	6.4	1.6	6.0
EE	6.4	-2.0	7.8	0.9	9.5	2.7	-3.6
HU	4.7	1.7	4.4	0.2	3.1	0.2	0.5
LT	4.7	-1.6	7.8	0.5	8.1	2.0	3.0
LV	5.8	-0.2	7.6	1.6	11.0	3.3	-4.6
PL	5.2	-0.7	3.0	-1.3	5.4	3.3	4.8
RO	-2.5	-2.0	6.1	-4.2	4.5	0.8	7.1
SK	2.5	-1.5	4.6	0.4	8.5	1.9	6.4
SL	4.5	0.3	3.5	0.5	5.3	1.4	3.5
EU-15	**3.1**	**1.7**	**1.6**	**0.8**	**2.4**	**1.3**	**n.a.**

Source: European Commission (2008), own calculations.

The post accession period was characterised by an upswing in the business cycle in the EU-15. This period also saw real GDP growth for most CEECs. Employment growth became more robust than in the earlier periods. Simultaneously, unemployment decreased significantly. "This drop was largely attributable to the strong GDP growth and, to a lesser extent, to labour migration, e.g. in Latvia, Poland and, probably so, in Romania" (Brücker *et al.* 2009: 168). Economic and labour market prospects for the years to come are uncertain due to the severe recession in the industrial countries especially in 2009 and partly in 2008. Poland, in particular, has been less severely affected by the global downturn as it is integrated into the financial markets to a lower degree and depends less on foreign trade (Brücker *et al.* 2009: 168).

With regard to (un)employment outcomes, it has to be recognised that, in the years immediately prior to accession, after more than a decade of transition, the labour markets of the CEECs were still displaying very poor outcomes with, low and, sometimes, still declining employment rates (Cazes 2008: 4). This situation changed decisively after accession to the EU, at least until the downturn of 2008/2009. Overall, in 2007, just prior to the recession, the labour markets in the CEECs compared much better with the EU-15 average than before accession. Explanations for these patterns will be given below. Nonetheless, the region was still lagging behind the best performers in the EU (and the leading OECD countries) with regard to (un)employment. This was particularly so with respect to the Nordic countries and the UK. The main reason for this was because low employment rates for young people and the older generation, women and a relatively high and persistent incidence of long-term unemployment has continued across the CEECs.

Common institutional problems and related trends in the CEE region

The fact that transition has led to a large fall in the number of jobs and a longer-term under-utilisation of labour than was expected, means that quite a few issues and their

interactions have to be taken into account. Initially social income support was generous. Accelerating unemployment due to the deep transition crisis that was associated with the pace of enterprise restructuring and the rate of job creation, however, changed policy-makers minds as experts of the World Bank and the International Monetary Fund as well as the OECD proposed liberal labour market policies. Against this background, politicians decreased unemployment benefits hoping that this would contribute towards faster re-employment of jobless persons. Since then, relatively restrictive unemployment benefit systems compared to western European countries with rather low replacement rates and a constrained duration have become characteristic of the region. In other words, the initially generous eligibility conditions have been strictly tightened since the mid-1990s.

The above mentioned restrictive contemporary unemployment benefit system and the "limited job opportunities have also led to discouragement and massive labour force withdrawals, especially among younger and older cohorts as well as women" (Rutkowski 2006: 38). Additionally, the oft-used early exit strategies meant effectively an enduring burden on systems of social security and employment, as this policy led to high payroll taxes. The reason for this is the fact that social security systems and expenditures in the region are financed similarly to continental European countries like Germany, predominantly through contributions levied on wages, which results in high supplementary labour cost (Barysch 2005: 8 and Buttler 2008: 1, Żukowski 2009: 29). The majority of the CEE region's countries "stick to the Bismarckian model regarding the mode of financing the welfare state, which relies on social security contributions shared between employers and employees, and levied against wages, with general tax revenues playing only a marginal role" (Offe and Fuchs 2007: 16). Even low labour incomes have to bear regularly high social contributions in the CEE region which explains the high salience of the shadow economy in the region, apart from the Czech Republic and Slovakia (Rutkowski and Scarpetta 2005: 94; Buttler 2008: 5). Effectively, the CEE economies "also suffer from poor labor market performance which is due, in part, to the high non-wage costs of employment. […] High non-wage labor costs weaken the already imbalanced labor market and shrink the contribution base as a result of increasing incentives to participate in the shadow economy. Therefore, there seems to be at best, only very limited room to increase revenues by increasing contribution rates" (Offe and Fuchs 2007: 16).

Some evidence suggests that early exit strategies still play a certain role in several CEE countries and can contribute to explaining rather low labour force participation rates compared to the best performers in the EU-15. It is obvious, and in line with well-known tendencies for welfare budgets in catching-up countries (Offe and Fuchs 2007: 12), that social protection-related expenditures as a share of GDP, which ranged from 12.4% in Estonia and seven other countries below 20% to 22.3% in Hungary and 22.8% in Slovenia, were considerably lower than the average of 27.5% in the EU-15 in 2006 (Puglia 2009: 4). However, expenditure on social protection benefits in certain areas that are, as a share of total social benefits, much higher than the average in the EU-15, may signal only to some extent real demographic or sickness and disability trends (Puglia 2009: 6). Several examples serve to show this: in eight CEE countries, old age expenditure was similar to the EU-15 average of 45.9% of total social welfare payments, while they amounted to 52.9% in Bulgaria and 61.25% in Poland in 2006. Similarly, the spending on sickness/health care as a per cent of total social benefits was more than 5 percentage points higher than the EU-15 average of 29.3% in the Czech Republic and in Romania in 2006. Additionally, the relative spending on disability was, apart from Latvia, by one to 3.3 percentage points higher than in the EU-15, with 7.4% of GDP in 2006. Therefore, these figures rather hint at the use of these social protection expenditures to some extent to pay for alternative routes into factual early retirement to decrease registered unemployment. The figures above also imply that with respect to some parts of the CEE region it is probably true that "the Central and East Europeans spend too much on social security, given their rather low level of

income and economic development" (Barysch 2005: 8), at least if this spending is connected to a poor labour market performance. Simultaneously, the relative spending on unemployment benefits was almost always 2 to 3 percentage points lower than the EU-15 average of 5.7% and reached just 0.9% in Estonia.

Furthermore, labour mobility in CEE was "relatively low, *inter alia* due to an underdeveloped housing market. Although regional wages tend to respond to regional unemployment, this is not enough to entice entry of new firms and investment which are a prerequisite for job creation" (Rutkowski 2006: 39). A further problem is insufficient availability and affordability of (public) transport to increase labour mobility. At the same time "activation measures" have been comparatively unimportant in the CEE region. Such measures refer to the use of active labour market policies (ALMP) to help unemployed persons and others experiencing difficulty to a job by themselves. One in ten of the total population wanting to work across the EU took part in some form of labour market policy training, one of the most important measures of ALMP, at any time during 2006. In terms of methodology, this figure shows the average number of people activated at any point during the year 2006 (and not the number of different individuals activated through training during this year). According to the definition by the International Labour Organisation (ILO), persons wanting to work include unemployed individuals without work that are currently available for work, or actively seeking work, as well as the other inactive persons wanting to work but not actively seeking employment or not currently available for work (the so-called labour reserve). There were large differences between countries, however, with respect to labour market policy measures among the EU countries. While the highest activation rates through training were observed in some of the continental European countries (ranging from around 16 persons per 100 people wanting to work in France to 23.6 in Germany), the levels of activation were one person per 100 persons wanting to work in the UK. This low value was also witnessed in all CEE countries, apart from Slovenia which had about 8 in 100 persons wanting to work (Gagel 2009b: 6-7). In line with these facts, the implied low relevance of labour market policies in the CEE region shows up in particular in its low labour market policy expenditures in per cent of the respective GDP values which are often several times lower than the average in the EU (Gagel 2009a).

These developments were accompanied by sharply falling real wages during the early phase of transition, which have rebounded since the mid-1990s, following the resumption of economic growth (Rutkowski 2006: 38-39). Meanwhile, the income inequalities in the CEE region have become more pronounced than in the EU-15 on average (Buttler 2008: 5). "The income disparities correlate with low union density, small shares of firms bound by collective agreements and little centralisation and co-ordination of wage bargaining (Buttler, Schoof and Walwei 2006: 112). In such an environment, firm specific characteristics such as profitability, industry affiliation, ownership etc. increase wage inequality. Further driving forces behind the growth in income inequalities, particularly with regard to wages, have been the increases in returns to education and high white collar skills. This has resulted in rising income inequalities with respect to skills and regions. These inequalities are partly related to labour market segmentations in the CEECs. Such segmentations show up, for example, in unemployment rates in depressed regions of a country that are two to three times as high as in low unemployment regions. The losers comprise less skilled low-wage blue collar workers in declining industries and regions where unemployment is already high. The winners include well educated white collar workers who find employment mainly in the well-paying expanding services sector (Rutkowski 2006: 39). The final effects of these developments on, for example, inequalities are not entirely clear by now: "One way to counteract the income disparities in the prime distribution is by state redistribution. However, because of their developmental backlog the potential of the Central and Eastern economies for substantial social policy

intervention is exceptionally limited" (Buttler, Schoof and Walwei 2006: 112). Due to the recent recession, this problem has become worse. Governments now often have to choose between Draconian cuts in welfare and fiscal irresponsibility (that may prove unsustainable in the longer term).

Against this background, persistent unemployment existed until the first half of the 2000s. "In particular, outflows from unemployment to jobs have been low in many cases leading to build up of a large pool of long-term unemployed, with a negative effect on their employment prospects" (Rutkowski 2006: 39). A reasonable explanation for these patterns put forward by Buttler, Schoof and Walwei (2006: 110) suggested that the transformation crisis is ongoing because "unlike in western Europe, the still high level of employment insecurity in the new member states induces fewer workers to change their jobs even during especially good times". Such a poor and slow adjustment occurred in spite of the comparatively underdeveloped trade union power as demonstrated by the low and still rapidly declining average density of trade unions in the CEE countries – exceptions are only Slovenia and Romania – compared to the EU-15 as a whole (see table 8). This is further reflected in the low and ineffective collective bargaining coverage across the region; the only exception being Slovenia (see for details and background Funk and Lesch 2004 and Kohl 2009). Similar to the US and Japan, as well as the UK, the new CEE member states "limit themselves largely to fixing 'the rules of the game'. Minimum rules on employment conditions are laid down in law, the rest being left to the individual negotiating power and skills" (Gerstenberger 2009). These features are often portrayed as being in contrast to "the key elements of European Social models" that "clearly distinguish the EU from its global competitors" (Gerstenberger 2009); namely, Japan and the USA. More specifically, in the EU, around two third of workers have their pay and conditions set by collective bargaining, in contrast to the lower levels in Japan (20%) and the USA (12%) as well as in the CEE region (often considerably lower than 50%). Furthermore, as opposed to the often pursued practices in the eastern parts of the EU, employee involvement is mandatory and it is not up to companies to decide whether and how they wish to involve their employees with respect to many areas of industrial relations, employment conditions and workers rights.

The lack of union success in the CEE region with regard to job security, labour standards and wage-determination procedures may explain this situation. Several non-union sectors (often without employers' associations as well) and a large number of non-union companies, in the order of around 80%, prevail in the CEE region. In other words, essential conditions for bilateral wage settlements and wage bargaining as well as the involvement of workers via works councils are regularly missing. The exception is the special Slovenian case with amongst other things, a different tradition of self-government in a small comparatively rich nation in relation to the rest of the CEE region

It has to be seen what changes the implementation of the 1994 EU Directive on European works councils and of the 2002 EU Directive on Minimum Standards for Information and Consultation of Employees will finally bring to this situation of obviously weak trade unions in the future. An important reason for the weakness of the trade union movement appears to be its decentralised funding structure that leads to particular weak trade union centres hardly able to pay expert staff and national campaigns and projects (Kohl 2008). This background of weak actors in industrial relations can, at least partly, explain the often pretty low influence of debates triggered by the EU Commission. Given the increased heterogeneity of the EU-27 populations and economies, it is currently unclear if EU industrial relations and other labour market-related policies will evolve more towards those of other similarly heterogeneous countries like the US (Burkhauser 2008: 38) or if those CEE economies which conform less to the EU social model will face pressures to

change their industrial relations systems so as to conform better to the sometimes alleged "EU standards".

Additionally, employment protection legislation (EPL) appears to be rather moderate at first sight, as the average indicator of the CEECs which was 2.2 in 2003 – the latest year for which data for all CEE countries are available (see Knogler 2008) – is somewhat lower than in the old EU member states with 2.4 (see table 8). This is also closer to the OECD countries that have a lower average than the EU (Cazes and Nesporova: 2003: 25 and (Buttler, Schoof and Walwei 2006: 109-110). These figures should signal higher average labour market flexibility in the CEE region. It is also obvious, however, that notable cross-country differences existed (and still exist), as the overall indicator ranged in 2003 between 1.7 in Hungary and 3.1 in Romania. Comparative international studies often use this indicator developed by the OECD to measure EPL. It combines the regulations on individual dismissal protection, collective dismissals and forms of temporary employment such as temporary work via employment agencies and fixed-term employment. While employment protection rules differ across CEE economies, the combined overall EPL index has become on average more liberal compared to the EU.

Nonetheless, these figures also demonstrate that the equilibrating market forces have been weak to alleviate the imbalances in the CEE region with regard to labour market performance. This is all the more so when compared with the more successful EU-15 economies and their labour market performance over the last decade, for example Denmark or the United Kingdom, where the EPL indicator was lower. In the CEE region, the important reasons for insufficient labour market performance explained above, appeared to outweigh the causes often used in highly industrialised economies to explain high structural unemployment; for example, Germany, with strong trade unions, strict labour market regulations and job-protection laws and generous unemployment benefits (Bradley and Stephens 2006: 1).

It has to be noted that minimum wages, which tend to be rather uniform within nations across CEE, are generally not low in an international perspective, in spite of strong and persistent regional and occupational disparities and segmentations (Rutkowski 2006: 36-38; Funk/Lesch 2006: 81). In all CEECs, minimum wages as a percentage of average gross monthly earnings in industry and services were higher than in the USA (31.2%) in 2007, with the exception of Estonia and Romania, which are slightly below the USA-figure (often used as a benchmark). The other countries were below 40% apart from Slovenia (43.9%) and Slovakia (46.6%). The latter two countries' rates are, therefore, higher than in the United Kingdom (38.2%) (Czech 2009: 5). In several of the high-income older member states of the EU, including Denmark, no national minimum wage exists (table 8). Usually high labour taxes in the CEE region contribute to (un)employment problems especially due to interactions with these national minimum wages, as noted above (see for details Boeri/van Ours 2008: 81-98). The main sources of funding social protection expenditures in the CEE region were social contributions in 2006. In eight of the ten CEECs, the share of social protection receipts to fund social protection expenditures amount to 58% (similar to the EU-15 average of 58.9%), while in the Czech Republic and Estonia is higher at 80%. The figures were only significantly lower in Hungary and Poland, by around 5-10 percentage points respectively (table 8). Only these latter countries, since 2000, achieved a significant decrease of their often employment-unfriendly dependence of social contributions to fund social protection expenditure, when social protection receipts still amounted to 59% per cent in Hungary and 55.3% in Poland (Puglia 2009: 10).

The EPL comparison in table 8 (below) hides the fact that significant differences, other than the ones mentioned above, prevailed when taking into account several components of the indicator. Although collective dismissal protection was rather similar to the old EU

countries, this was not true for the other parts of the indicator (Knogler 2008). Apart from Latvia and Lithuania, regular employment relationships were much stronger regulated in the CEE countries, with an average indicator value of 2.7, than fixed-term and temporary jobs, with a value of 1.2. Similarly, regular jobs were better protected, on average, in the CEE countries, than in the EU-15 with a value of 2.3. The comparative figure for Denmark demonstrates that regular employment relationships (indicator value: 1.5) were less protected than in all single CEECs (though more than in the UK), whereas fixed term and temporary contracts in Denmark (1.4) were slightly better protected than on average in the CEE region.

Table 8: *Important selected indicators with respect to institutional incentives*

Country	Indicators			
	Trade union density around 2005[a]	**Employment protection legislation in 2003[b]**	**Minimum wages in 2007[d]**	**Social contributions[f]**
Bulgaria	20	2.0	42.1	58.0
Czech Rep.	20	1.9	38.1	80.3
Estonia	11	2.3	30.5[e]	80.4
Hungary	17	1.7	36.5	53.8
Lithuania	12	2.8	33.5	61.0
Latvia	16	2.5	31.5	63.9
Poland	14	2.1	32.4	48.0
Romania	35	3.1	29.1	69.5
Slovakia	22	2.0	46.6	65.6
Slovenia	44	2.3	43.9	67.9
in comparison:				
EU-15	26	2.4[c]	n.a.	58.9
Denmark	> 60	1.8	n.a.	30.8
UK	< 20	1.1	38.2	47.9

Notes: [a] Density of trade unions in per cent of total workforce (private sector); [b] Overall indicator of employment protection legislation: OECD indicator scores range from 0 to 6 (a high value represents heavy restriction, a very low score hardly any restrictions); [c] without Luxembourg [d] Minimum wages as a percentage of average gross monthly earnings in industry and services; [e] 2006; [f] as per cent of total receipts in 2006. n.a. = not available.

Source: Czech (2009); European Commission (2009); Knogler (2008); Kohl (2008); Puglia (2009).

Despite the asymmetric liberalisation of the CEE labour market and the persistence of strictly regulated regular employment relationships (Knogler 2007, 2008), the role of registered "irregular" jobs, particularly fixed-term or temporary ones, remains very small compared to the EU-15, apart from Poland and Slovenia (see table 3). The empirical evidence for OECD countries shows that the different treatment of fixed-term and permanent contracts encourages a two-tier regular labour market that is undesirable from a pure theoretical economic and equity point of view. This is because this approach shifts the burden of adjustment onto the margins of the labour market, such as youths, older workers and women (OECD 2006). An important reason why this adjustment is probably much less visible in the CEE region, apart from Poland and Slovenia, appears to be the larger role of the shadow economy compared to the EU-15 average. In other words, the larger informal sectors in the CEE region seem to be driven by the avoidance of labour market-related and other regulations, including evasion of taxes. Despite evidence supporting a relatively strong enforcement of labour market regulations, at least compared to the non-CEE transition states (Rutkowski 2006: 39), other empirical evidence appears to demonstrate that the effectiveness of regulation in several of the CEEC is smaller than international comparisons of EPL suggest (Knogler 2007, 2008).

Voluntary leaves, for example, are often only reported as voluntary due to illegal extra-agreements when signing a new labour contract that includes "a notice of dismissal (voluntary leave) signed by employee and left with the employer with open date" (Eamets/Masso 2004: 26). Similarly, in "Poland new recruits frequently negotiate their employment conditions directly with their boss, who may make it clear that notice periods or severance pay will not be available" (Barysch 2005: 12). Further examples for the lack of regulatory effectiveness are the apparently widespread habits of widespread tax evasion, despite low income taxes (Barysch 2005: 8), and of non-declared pay-components, above all for recipients of minimum wages, in several CEE countries. "This results in a considerable loss of taxes and social security contributions for the general public as well as lower revenues from union dues for the trade unions if dues are paid on the basis of the officially declared minimum rate only" (Kohl 2008: 12; see also Barysch 2005: 15). The comparatively high importance of the informal sector is associated with the increased incidence of casual jobs as well as with self-employment (table 6). On the whole, these factors can largely explain why atypical work appears to play a small role in the regular sector in spite of its comparatively low and decreasing regulation.

The EU accession negotiations, which began in 1997, saw the transposition of the *acquis communautaire* – the key laws of the EU – by the CEECs. This led the investment climate to improve considerably. As a result, CEECs, particularly those in central Europe (i.e. Poland, Hungary, Czech Republic), became prime targets for foreign direct investment (FDI) and outsourcing by European and non-European firms (Hölscher and Stephan 2009: 864). Barysch (2005: 2) notes:

> The process of accession has been important for FDI, for several reasons: first, as the East European countries took over EU rules and policies, their business environments started to resemble those in Western Europe. As a result, foreign investors started to feel more at home in the accession countries. Second, as the EU opened up its markets for goods from Poland, Estonia or Slovakia, these countries became more attractive locations for export-oriented production. And third, the prospect of EU membership acted as an "external anchor" for economic reforms, guaranteeing a certain amount of stability and insuring investors against policy reversals.

Additional reasons explaining why the (un)employment performance remained weak until external conditions improved, include the following factors: (1) world economic growth and trade expanded to a larger degree in the post-accession period than in the years before; (2) the EU-15 further expanded trade, which helped the catch-up CEE economies, as these countries became major export markets for the EU-15. Benefits arose from the abolition of the final remaining trade barriers after accession, allowing easier cross-border co-operation between the various new member states, thus boosting trade within the CEE region, as well as with destinations beyond the EU. Last but not least, transfers from the EU budget were higher after the accession process, these payments were, however, much too low to fully account for the improved performance (Richter 2007).

From a labour market perspective, all these factors shifted labour demand upwards and thus could have contributed to solving quite a few of the former labour market problems if the increased demand for labour had endured. However, the high demand for labour proved to be unrealistic in the light of the 2008-2009 economic crisis. This was due to the fact that, in part, the increased demand was cyclical and in some parts of the CEE region, particularly unbalanced (i.e. Latvia and Hungary). These countries were characterised by unsustainable consumption, growth of the construction sector or export-dependent booms (Tilford and Whyte 2009: 11 and 72-74). In other words, structural labour market problems in the CEE region will still have to be addressed in the next section. Before

moving to this, however, the analysis of further important structural indicators will be provided.

In order to highlight commonalities among the CEE nations, this article has thus far not fully addressed important cross country differences. These differences may go some way to explaining the divergence of future trajectories taken by the CEECs. Two social indicators that are often used in international comparisons are (1) income inequality and (2) the percentage of persons at risk of poverty (Tilford and Whyte 2009: 89). Income inequality can be defined as the ratio of total income earned by the top 20% of the population relative to the 20% at bottom. 'At risk of poverty after social transfers' is defined as the share of the population whose income is less than 60% the national median disposable income after social transfers. The poverty of risk, as well as income inequality indicators are very mixed in the CEE region. They are also highly correlated and range from those states with a high risk of poverty, i.e. UK with values of 19% and 5.4 in 2006 (similar to Estonia, Latvia, Lithuania and Romania) to those with a low risk, such as Denmark with values of 12% and 3.7 in 2007 reflecting similar values in the other CEE member states (Tilford and Whyte 2009: 89). However, the belief that freeing up markets always leads to more social inequality problems is not supported by the evidence (Tilford and Whyte 2009: 89). On the contrary, it has to be noted by Tilford and Whyte (2009: 90) that:

> the country with the lowest levels of long-term unemployment, income inequality and poverty in the EU is Denmark – a country with some of the most liberalised markets for goods, services and labour in the EU. Equally, many of the countries with the worst social outcomes in the EU (notably Greece, Italy and Portugal) have highly restrictive product and labour markets. So liberalisation does not threaten social justice and high levels of regulations do not guarantee it.

Hence, the worst outcome of the 2008-2009 economic crisis from a longer-term perspective for economic efficiency, employment as well as social equality will be fulfilling emerging demands to strengthen EPL and "that globalisation will be blamed for job losses, sparking demand for trade protection" (Tilford and Whyte 2009: 72).

A final important issue is the role of skills and education. Employment rates and productivity levels, as well as wages for people with university-level education, are, on average, markedly higher for people with university-level education than those for people who complete secondary education (let alone those who fail to do this). It has to be borne in mind that the Danish employment successes have to be seen also in light of its excellent education system. Probably, countries that adopt flexicurity measures without improving skills levels will not achieve Danish social outcomes (Tilford and Whyte 2009: 90). Stocktaking in this respect is mixed; the results of selected CEECs are respectable in terms of international performance rankings (e.g. Estonia) or at least with regard to improvements in this respect (e.g. Latvia and Poland). However, in the Czech Republic, Hungary or Slovakia, for example, the percentage of persons aged 25 to 34 who hold a university degree is at less than 20%; much lower than the EU average of around 30% and the one in Denmark which is still 10 percentage points higher (Tilford and Whyte 2009: 81-82).

Orthodoxy, flexicurity or a mix of both: which way forward?

This section examines the policy agendas impacting the CEE regions and informed by key economic institutions. A good starting point is to check the proposals by the experts of the international economic institutions which specialise in benchmarking countries. Institutional approaches differ considerably at first sight, and move in at least two alternative directions. On the one hand, the OECD, the IMF and the World Bank based their

early policy proposals, particularly in the 1990s, on commonly accepted economic theories and general "orthodoxy", that is "neoclassical economics in which market liberal solutions predominate" (Bradley and Stephens 2006: 2).

In contrast, the most important alternative agenda follows a flexicurity model and is based on more institutionalist scrutiny demands, more or less presents a turn-around of orthodox mainstream economic policies. The ILO and the EU are the main proponents of this flexicurity-agenda (Auer and Gazier 2008). Arguing independently of specific single country cases, the ILO and the EU approach is based on more abstract, generalised relationships between flexibility and security as an alternative policy to pure deregulation. These approaches included the flexicurity project by the ILO that was launched in 2002 and lasted until 2005. It dealt particularly with Bulgaria, Hungary, Lithuania and Poland. Later this has included the EU Commission's flexicurity project according to which "flexicurity strategies aim to combine employment and income security with flexibility in labour markets, work organisation and labour relations" (European Commission 2009: 54). This framework has directly addressed the CEE region since 2006, when the EU published its so-called pathways to flexicurity, of which one especially fits the situation in the CEE region.

According to representatives of ILO, "the 'pure flexibility' approach that was promoted through pressures from international financial institutions to amend the labour legislation, in the region as the main and sole alternative to best transform labour markets in this region did not work" (Cazes 2008: 4-5). They contend that rather adverse effects on employment and reallocation of labour were the result. "Many workers, for example, were hesitant to quit their jobs voluntary, even in periods of economic recovery, because of the weak labour market institutional and policy setting and the resulting perception of job insecurity" (Cazes 2008: 5). In other words, "the liberalization of the employment protection legislation in Central and Eastern Europe was not adequately compensated by social protection, since the unemployment insurance became as well less generous and active labour market policies were underdeveloped" (Cazes 2008: 5). In this view, it is acceptable that governmental measures increase labour market flexibility in order to combat their employment problems. However, this requires that employees do not experience the changes that are needed "as a threat but understand it to be an opportunity" (Buttler, Schoof and Walwei 2006: 110). According to the proponents of this approach, the chances of realisation and success of more external labour market flexibility would increase if it were accompanied by labour market and social policy aimed at activation (Cazes and Nesporova 2007: 242). In other words, proponents of flexicurity support, as a rule, a larger role for tax-financing of a more generous unemployment benefit system and an increased role of ALMP spending (see Buttler 2008: 9).

Critics doubt that it is uncertain as to whether the expected pay-off in terms of increased productivity in the economy can outweigh the increased cost of financing these measures (see Calmfors 2007; Funk 2008 and Zhou 2008). In other words, a net gain in terms of job creation, as well as average job quality, is not ensured. In the current situation of rising budget deficits, it remains unclear how to finance additional spending on passive and active labour market policy. In order to finance such measures for certain groups without rising budgets of government bodies both the flexibility and productivity of the beneficiaries need to increase, or less security spending will be available for other groups and measures. Taking into account the likely electoral consequences of decreasing the security of insiders in the labour market, it is uncertain that flexicurity is popular among the majority of the electorate or, for example, the representatives of trade unions. At the same time, it is unlikely that the flexicurity strategy will be popular among national politicians, despite the EU Commission's efforts to promote the approach.

A recent study, financed by the European Commission, on flexicurity in industrial relations, presents rather disappointing results and impact levels of the approach, despite of its prominence at the European level since 2006. The comprehensive study was based on questionnaires to industrial relations experts in all the EU member states by the European Foundation for the Improvement of Living and Working Conditions in Dublin. It demonstrates that although "flexicurity is now the overriding guideline for labour market reform in the EU" (Auer and Gazier 2008: 3), the break-through in industrial relations in the Union is still rather limited. The study finds a "relatively low relevance of flexicurity in the national debates" (Pedersini 2008: 6) with certain important exceptions including some new member states (NMS) that joined the EU since 2004. "In the case of the NMS, the reform of labour regulation has been a relevant part of the accession phase and the EU employment policies have been widely debated" (Pedersini 2008: 6). In these cases:

> reference to flexicurity tends to remain rather abstract and does not preclude the presence of harsh criticism, but in certain circumstances it can emerge as an important element of the shared objectives of the government and the social partners, like in Bulgaria. In many Member States, the integration of the flexicurity concept at national level is only in its early stages – as in the Baltic states of Estonia, Latvia and Lithuania, as well as…Hungary. (Pedersini 2008: 6)

However, "the effects of the debate on flexicurity on the policymaking process are rather weak", because "the concept still needs clarification and interventions follow the lines of traditional segmented policies – which is the case in many of the NMS" (Pedersini 2008: 7). The actors in wage bargaining are to a very large extent characterised by traditional attitudes, with employers demanding more flexibility and trade unions arguing for more security. Exceptions are traditional fields of training which are, for example, sponsored by the state. Contractual agreements often attract opposite demands from employers in the form of more flexibility and trade unions in the form of more security.

Moreover, it has to be noted that despite the fully justified criticisms against the use of economic orthodox explanations in terms of understanding what has happened in the CEE region, it still may have merits for wider analysis. Labour market developments may be explained according to the realists among the challenged economic orthodoxy in a plausible way. Their story starts with the extreme situation of transition countries which was often underestimated by the orthodox optimists. It was marked by severe shocks to their economies with simultaneously only very poor adjustment capacities, partly because of the urgent needs to keep budget deficits in line with sound macroeconomic policies. One of the potential explanations for the rather bad labour market record in the years after transition until around 2004 is as follows. Generous labour market institutions, and in particular, unemployment benefits, may have contributed to the initially high levels of unemployment in the CEE region by acting as a floor on wages. It is true that subsequent changes to benefits systems have not necessarily been associated with moving people back to employment. This may be perfectly in line with economic reasoning. For example, "if the least productive workers lost their jobs first, those with low skills have subsequently become locked into unemployment. When the generosity of benefits began to recede in the second half of the 1990s the human capital had effectively deteriorated to an extent that they were unable to find work" (Commander and Heitmueller 2007: 4-5). It is highly implausible to assume that such structural problems which were related to a much lower effective stock of profitable jobs compared to the existing (potential) supply of labour could have been resolved with, for example, increased expenditure on ALMP financed by governments with already very tight budgets, rather than with an enduringly improved investment climate that trigger investments into profitable employment relationships to increase the stock of jobs available in the economies (an alternative could be an adjustment mainly via emigration of labour to other countries to find a new long-term equilibrium). However, this hypothesis is difficult to test empirically. At least some

'anecdotal' evidence is available that supports it. For the CEE OECD member states, comparable data related to this hypothesis is available. It shows that in 2006 employment/population ratios of persons aged 25 to 64 with less than upper secondary education was at 23.5% (Slovak Republic), 38.2% (Hungary), 43.9% (Czech Republic) and 53.6% (Poland). This was below that of the EU-19 (this is the EU-15 plus the four CEE OECD member states) and total OECD averages of 55.5% and 58.4% (OECD 2009d). Moreover, this mainstream hypothesis of faster human capital depreciation of the job losers than profitable job creation in the real economies has not been rejected convincingly by other evidence. In other words, according to many mainstream economists the labour market performance in the CEE economies described above cannot be used as evidence that can reject the principal longer-term employment-effectiveness of the earlier implemented reform trajectories, though considerable adjustment in details may well prove welfare-enhancing.

Returning to flexicurity, one may, at least superficially, compare the conditions and indicators of flexicurity's role model, Denmark, with the situation in the CEE region. It is obvious that the structural indicators for Denmark in table 8 differ considerably from the ones in all CEE countries, apart from probably Slovenia, with regard to trade union membership. The EPL indicator even masks that, in contrast to the CEE region, the regulation between regular and non-standard jobs is much more symmetric. Taking account of further indicators mentioned above, as for example the expenditures on social protection as per cent of GDP in 2006, the spending of Denmark was even higher than the EU-15 average, which was not reached by any CEECs by far, by 1.6%. At the same time, the relative spending for old age and survivor benefits was at 37.9% (UK: 44.7%) which was much lower than in the CEE region, while the relative spending on unemployment benefits was considerably higher at 7.2% (UK: 2.4%).

More generally, with respect to most of these indicators, the UK, as the most important type of an European Anglo-Saxon regime, seems to mirror the average CEE economy much better than the currently most debated Nordic regime of Denmark (Puglia 2009: 6). Even accepting that the Danish model must not be regarded as a one-size-fits-all model (Cazes 2008: 5) and taking into account that such a direct comparison is limited, it is striking how far the indicators amongst Denmark (Nordic model) and the large majority of the mixed regimes of the CEECs are falling apart. This is partly because the CEECs still keep important elements like stricter product and labour market regulations that are characteristic for the traditionally employment-hampering continental employment and welfare regimes as, for example, Germany. Reforming these aspects could prove employment-enhancing, if the resulting gains are used to prop-up efficient spending on ALMP and unemployment benefits based on the flexicurity idea. However, it has to be kept in mind that, up until now, both the steering capacities of the industrial relations systems as explained above and of the state (in terms of, for example, to effectively formulate and implement sound policies) have to be regarded as relatively low compared to the Nordic countries, especially Denmark, and partly also to liberal regimes (with low steering capacity of the industrial relation system only) as evidence demonstrates (Kaufmann *et al.* 2008, Wagener and Jacobs 2009: 298-299). This is even more important, as the CEECs have to be regarded as "low-trust"-societies in contrast especially to Denmark (Hausner 2009: 216) which is characterised by a strong "public-spiritedness" (that is a low inclination to cheat with respect to public benefit systems). Table 9 (below) highlights such a broad-brushed stylised comparison.

Finally, it has to be acknowledged that, at least since the restatement of the OECD's Jobs Strategy in 2006, important convergence of the OECD's view towards the ILO position with respect to flexicurity can be easily detected. The OECD concedes now, for example, that well-designed unemployment benefits and activation policies can promote the re-

employment of jobseekers and that strong labour market flexibility combined with low welfare benefits may imply unwanted income gaps and labour market segmentation (Viebrock and Clasen 2009: 21). Furthermore, recent reform proposals for the CEECs contain important ingredients of flexicurity; for example, expansion of training measures and improved activation schemes (OECD 2008, 2009a). Additionally, the ILO admits simultaneously that her approach leaves some open questions that partially address issues raised by the OECD criticism and that countries with only moderate dismissal protection may perform better than the ones with very strict regulations (Abu Sharkh 2008).

Table 9: *Highlighting the differences between continental, liberal and mixed regimes of welfare and employment*

	Liberal regime (e.g. UK)	**Nordic regime / Flexicurity (e.g. DK)**	**Mixed regime (e.g. CEECs)**
Industrial relations system	weak unionisation and weak wage coordination	relatively centralised or at least strongly co-ordinated wage bargaining	weak unionisation and weak wage coordination as in liberal regime
Employment protection legislation (EPL)	minimal public regulation and very low EPL	low need for strict EPL; high coverage by welfare state and dual earner model	strong EPL of core workers in regular jobs as in Continental regime
Unemployment protection / active labour market policies (ALMP) / side effects	residual to alleviate poverty / activation and in-work benefits/ high poverty rates and inequality	uniformly high / ALMP to bring back people to jobs especially in Denmark / very costly, high taxes	movement from status-oriented towards residual / very low ALMP spending / rather high poverty and inequality similar to liberal regime
Product market regulation	Very light and very employment-friendly	light and employment-friendly	rather strict; hampers job creation as in continental regime
Social services provision	market-determined by strong wage differentiation	financed by high taxes and offered by jobs in public sector	often employment-hampering as in continental regime
Steering capacity of state / industrial relations system	strong / weak	strong / strong	weak / weak

Conclusions

An unequivocal answer to the question in the heading of this article proves difficult. The answer depends, amongst other things, on the expected likelihood of different scenarios and, in the final analysis, value judgements about the importance of alternative goals that are connected to often inevitable unwanted side-effects. An example for such a trade-off may be the societal decision between high employment and low structural unemployment but large wage differences and inequalities (liberal regime mainly found in Anglo-Saxon countries, i.e. UK) or a low employment rate with a compressed wage structure and potentially a persistently rather high unemployment rate (conservative regime mainly found in continental Europe; i.e. Germany particularly since the 1980s until the substantial recent reforms). Both 'models' may be connected with rather high poverty rates, either of the unemployed/non-working population or of persons in work on low-paid jobs. In practice, however, poverty rates are generally higher in Anglo-Saxon countries. Potentially, a superior approach is available that combines good labour market performance – similar to liberal regimes – with an improved record in terms of social outcomes – comparable to the traditional outcomes in western or northern Europe and based on the experience in Denmark and, to some extent, the Netherlands. The idea of

flexicurity has served as a blueprint for CEE economies by the ILO and the EU commission in the last years, albeit with few obvious effects up until now. What can be the future of this approach in the CEE region?

Flexicurity offers a vision of a fairer and, in terms of labour market performance economically, superior model compared to the current hybrid regimes of the emerging market economies in the CEE region with foremost conservative and liberal elements. A sudden and very likely inconsistent partial movement towards flexicurity may, however, lead to meagre results. This could even be counterproductive if unrealistic expectations are not fulfilled. In turn, markets might, after such a failure, be regulated by backwards-oriented new governments in a more employment-hampering way than existed before. Currently the awareness among bargaining partners in industrial relations about flexicurity remains low in practice. Despite of having been triggered as a debate more than half a decade ago, there are only few visible results in the CEECs. This is probably caused by the missing preconditions for the practical success of the flexicurity concept in large parts of the region.

It has to be kept in mind that mutual trust among employers and trade union representatives is still often missing to a large extent in the region. Until now, even the power of trade unions to implement collective bargaining systems as well as effective structures to control their use – if they are available – is often missing. Therefore, as long as employers and their associations as well as trade unions do not regard flexicurity as a rather secure "win-win"-situation, in such an environment its implementation appears to be rather doubtful. Additionally, empirical evidence suggests that industrial relations bargaining partners in CEE take decisions that, by no means, are always in the best interest of society as a whole, as proponents of a flexicurity strategy often assume. Instead, they appear to have a preference to shift adjustment burdens on outsiders if possible, for example the entrants into the labour market. Furthermore, it is not obvious that the governments in the CEE region with still rather low steering capacities can – or want to – counter such tendencies. Moreover, it may be in the narrow, short-term interest of governments to increase 'security' by spending more on ALMP under the heading of flexicurity without simultaneously increasing "flexibility". The result is very likely to be lower regular employment, particularly if ALMP is implemented inefficiently. Indeed, it is well known that the problem with ALMP is that it is a double-edged sword: it can improve the operation of markets as well as undermine them. It is by no means obvious if a large-scale increase of such measures without targeting them narrowly will be on net beneficial to CEECs.

It is also by no means confirmed that the existing combination of enterprise-level bargaining and the limited importance of collective agreements (which dominates the CEE regions' firms), will produce a worse labour market and economic growth performance than a move to collective bargaining at the sectoral level (often demanded by proponents of flexicurity) (see Funk and Lesch 2004). Moreover, it is not obvious that strengthening the role of social partners (if they are weak or missing) and their inclusion, which factually often means giving them veto-power, will always lead to better results for society or workers as a whole.

Taking all considerations into account, a strategy of only promoting flexicurity, may prove to be a rather risky strategy in the CEE economies. A more secure approach is probably to follow a strategy with many differing starting points that attack poor labour market performance very broadly, as suggested by the OECD. It is true, however, that since the restatement of the OECD Jobs Strategy and due to similar amendments of the suggestions by the IMF or the World Bank, the proposals by these institutions contain important elements of flexicurity. Therefore, we can sum up that embedding flexicurity in such a

broader context of structural reforms can avoid the main risks of a pure flexicurity strategy and may be worthwhile to follow in the CEE region.

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