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Flexible forms of employment: a contemporary development in labour relations in Cyprus and the European Union

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FLEXIBLE FORMS OF EMPLOYMENT: A
CONTEMPORARY DEVELOPMENT IN LABOR
RELATIONS IN CYPRUS AND THE EUROPEAN
UNION

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EUROPEAN UNION

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LABOUR RELATIONS IN CYPRUS AND THE EUROPEAN UNION

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CHAPTER 1: INTRODUCTION

1.1 Abstract

A huge issue for employees around the world now days is to have a job, according to kathimerini¹ newspaper “Seventeen EU member states saw their unemployment rate decline on July compared to last year and eleven saw it rise, with the biggest spikes recorded in Cyprus (12.2 percent to 17.3 percent) and Greece (23.8 percent to 27.6 percent between May 2012 and May 2013)”¹. In the context of every person has a job many countries have developed a new model of social welfare with a prevention policy of the labor market.

The term flexicurity indicates a very carefully balanced design which has to do with the flexibility of job creation and the security. The Flexicurity is based on cooperation between the labor market and social policies. So the employers have to create the best possible conditions which will help the job growth.

In the first part of this project we will review literature beginning with the reasons which led states to develop this new way of form of employment defining what “flexicurity” is and concluding how it applies to countries that have tried it and with what consequences

During the last twenty years all countries have experienced major economic and institutional changes, which had a serious impact on modern societies. In industrial relations in particular, the combined impact of the economic crisis (which caused higher unemployment) and the restructuring of production, brought about radical developments and changes in the mechanisms of labor relations, in the structure and organization of work, in the rules regulating the relationships of employers and employees and in the regulating mechanisms of the labor market. One of these changes is the dynamic emergence of flexible forms of employment.

Flexibility is a recurrent subject on the European policy agenda and one of the key elements of the Lisbon Strategy in making Europe more dynamic and competitive.

¹ http://www.ekathimerini.com/4dcgi/_w_articles_wsitel_1_30/08/2013_516279

Promoting flexibility in labor relations through flexible forms of employment, aims to optimum adaption of the enterprises to the changing needs of the modern labor market and to the creation of more and better jobs.

In this context and by exploring the relevant literature and secondary data, the present paper is initially focused to present the theoretical background of the concept of flexibility and to determine whether flexibility affects business competitiveness and employability of the workforce. Then imprinted the policies followed in relation to flexible working structures at European level, focusing more in the case of Greece. Finally, is highlighted the imperative need of the conjunction between flexibility and job security and is analyzed the model of “Flexicurity”.

In chapter two a literature review will be showed in order to explain the story behind flexicurity as a term, the whole concept behind flexicurity and the relationship between flexicurity and unemployment.

In the third chapter we will examine the flexicurity model in German, Dutch and Danish labor market. We will see how this new model affects the unemployment in those countries and what the benefit of following this model was. We will also present examples of those European countries that have managed to apply flexible forms of work with succeed, since adoption is not yet generalized and standardized adopted. Our purpose is to identify key issues and challenged and affiliate measures that in our belief suit best each economic environment

In chapter number four we will see the Cyprus model, how the labor market is affected by the global financial crisis in Cyprus, we will also present the Labour market in Cyprus, and will conclude with an analysis in order to discuss the extent of implementation of flexibility in Cyprus specificities.

The last chapter will contain a conjunction between flexibility and job security, the concept of “flexicurity” and examination of the suitability of this model in Cyprus labour market. Finally, we will provide a general discussion, conclusions and suggestions for further studies and possible directions

The findings of this paper are based on a review of the flexibility literature. Secondary data (articles, working papers, books, etc) as well as statistical data are used in order to complement the study and to provide theoretical and empirical evidence on the topic.

In the following chapters we will initially introduce the concept and the main types of flexibility, in order to examine the correlation between flexibility and competitiveness and also employment.. Next..

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CHAPTER 2: LITERATURE REVIEW

2.1 The concept of flexibility

Flexible employment is an issue that caused public debate in most countries (Voudouris, 2004) and one of the fundamental employment trends in the countries of European Union. However, flexibility is not a concept that can be covered by a single term, because of its complexity and multidimensional nature. Although there is no official definition of “flexible forms of employment”, in practice it is realized as a term that covers a wide range of work styles and employment practices. For employers flexibility is correlated to productivity and competitiveness, for some politicians it is considered to be the best treatment for problems of economies and unemployment. Moreover, labor unions link flexibility with the undermining of collective bargaining.

European labor markets face the challenge of combining greater flexibility which has led to increasingly various conventional forms of employment. These types of employment variously are commonly referred to as “atypical”, “flexible working arrangements (FWAs)”, “precarious”, “non – standard”, “flexible”, “new” etc.

A wide literature review provides us with several meanings and concepts of the term flexibility, and most of these support the adaptation of new forms of employment. Some researchers suggest that organizations with a complex and dynamic environment require the adaption of flexibility in order to various and changing demands (Snow & Snell, 1993). Other researchers believe that flexibility is advocated by some political leaders, business gurus, and employers as the necessary condition for the survival of national labor markets in a fast-moving world of growing global competition. It is also seen as the necessary response at the workplace to these selfsame volatile business conditions. (Reilly, 1998).

Cazes and Nersporova (2003) provided a definition of labor market flexibility. According to them flexibility is the degree to which employment, working time or wages adjust to economic changes, globalization and new market conditions. Their analysis revealed that employment protection legislation in the western Balkans, although slightly more rigid than in central and eastern Europe, has been liberalized to

a considerable extent, while employment, employability and labour market policies have remained poor in this sub-region, despite rather high payroll taxes.

Moreover, Jepsen and Klammer (2005) believe that labor market flexibility refers to more than the strategies used by employers to adapt to their production or business cycles. They state that labor market flexibility can be used as a method to enable workers to adjust working hours and life to their own preferences and to other activities.

The majority of these studies and reports define flexibility as the wide range of work styles and employment practices that allow employees to vary to some extent. Otherwise, it is used to describe all kinds of employment, which differ from the traditional full time work, with a permanent contract. Flexible work is defined as atypical or nonstandard forms of employment (Peper et al, 2005; Avramidou, 2001). The term “traditional employment” refers to the typical model of full-time, open-ended employment, with standard working hours and a single employer over a long time span. In the current study, we will use the term “flexible” to best describe the concept of flexibility.

2.2 Types of flexibility

As we mentioned above, defining employment flexibility can be complex which reflects the subtlety of the topic and the need for further analysis. For this purpose we will examine four main types of flexibility, as suggested by Atkinson (1984). Atkinson marks that flexibility depends on where it takes place (inside or outside the company) and how it is developed (functionally, numerically or financially). Below we list these four types he suggested:

- **Functional flexibility (or organizational flexibility):** it relates to employee’s ability to allocate labor across traditional functional boundaries, according to business needs. It allows employees to combine skills and competencies in order to increase their mobility across the various channels of production. Functional flexibility relies on extensive training and thus it is likely to be continued when there is no longer a stable relationship between employees and the organization.

Some examples of functional flexibility are: multi-skilling, cross-functional working and task flexibility.

- **External numerical flexibility:** It refers to the possibility of the organization to adapt the number of its labor on a short-notice, increasing or decreasing it as it sees fit. Hiring temporary agency workers and employing people on fixed-term contracts can achieve varying employee numbers. Numerical flexibility is often related with limited employment security rights.
- **Temporal flexibility (or internal numerical flexibility):** It refers to shifting working hours in order to meet production demands. This may include working overtime and spreading the working hours unequally over a period of time depending on fluctuations in production. Organization also might use part-time employment to face even harder peaks in demand.
- **Financial flexibility (or wage flexibility):** It is linked with efforts on behalf of the organization to reduce labor costs, decrease or increase wages in order to protect profitability. Financial flexibility must be in line with internal labour market factors (recruitment or retention issues), external economic conditions (labour market tightness leading to shortages, or the opposite) or with business performance (productivity or profitability). To be applied, it requires partial use of temporal flexibility along with of cost savings that come from using through the adjustment of wage levels to reflect performance on individual, group or organizational levels.

2.3 Extended typologies of flexibility

According to Atkinson (1984), organisations pursue flexibility by dividing their workforce into a “core” of permanent workers that are subjected to functional flexibility and a “periphery” of temporary workers that are subject to numerical flexibility. This hypothesis is undermined by recent evidence that contingent work and involuntary turnover of the permanent workforce are positively and significantly correlated. In other words, the working conditions of “core” workers are not essentially isolated from the uncertainty of the working conditions of “peripheral” workers. Furthermore, recent evidence from the U.K. indicates that part-time workers do not experience more job insecurity than full-time workers, which is conflicted with common belief and suggests

that they cannot be lumped together with temporary workers as potential, insecure and numerically flexible labour. Thus the distinction of the core-periphery is amended in newer concepts of flexibility, wherein firms choose between “internal” and “external” flexibility, while seeking for balance.

Table 2.1: The FINE typology of flexibility

	INTERNAL	EXTERNAL
FUNCTIONAL Qualitative	Multi-tasking	Sub-contracting
NUMERICAL quantitative	Annualization Pay flex (voluntary) part-time	(involuntary) part-time, Temps, fixed-term, Work on call, teleworking

Thereafter, Atkinson supplemented numerical and functional flexibility with two additional types of flexibility, temporal and pay (financial) flexibility.

Temporal flexibility differs from the flexibility sought through adjustments in the numbers of the workforce. It applies practices such as overtime, and flextime (“internal-temporal”) or of the contingent, on-call workforce (“external-temporal”), to achieve its aim of temporal adjustments in the deployment of the regular workforce. It can be considered as a form of “numerical” flexibility in that it involves the numerical manipulation of labour inputs.

Pay or wage flexibility (of the level and wage structure) refers to the ability of the firm to adjust wage costs to fluctuations of the market, and to differentiate wages according to the performance of employees. Pay flexibility takes different forms, such as performance-related pay, and profit-sharing (“internal-financial”), and national or regional wage moderation agreements and derogations from wage norms in the form of “local employment pacts” or enterprise-level bargaining. Pay flexibility may be

regarded as a form of numerical flexibility because it involves the numerical manipulation of the cost of labour inputs, although it does not fit nicely within the FINE typology.

Table 2.2 lists the wide array of forms or practices of flexibility identified in the literature, which correspond to the four-fold typology (functional-numerical, internal-external).

Table 2.2: Denotations of the FINE typology

	INTERNAL	EXTERNAL
FUNCTIONAL	Overtime Job-sharing Multi-tasking In-job occ. mobility Job demarcations Holidays Lunch breaks Paid leaves Health/safety rules Representation rights Right to organise Working conditions Job-related training Union power	Sub-contracting Task-contracting Educational levels
NUMERICAL	Voluntary part-time Irregular hours Weekend-work Working week Shift-work Dismissal protection Empl. Protection Coordination Decentralisation Payroll taxes Wage elasticity Union density Union coverage	Involuntary part-time Homework Casual work (on call) Fixed-term Seasonal ALMPs Housing flexibility Job mobility Occupational mobility Regional mobility Sectoral mobility Limited benefits duration Replacement ratio Minimum wages

A further extended typology of flexibility attempts to link micro-conceptions of labour flexibility with meso -and macro- conceptions of flexibility of organization and society – thereby incorporating the ideas of a large body of literature regarding the alternative dimensions and configurations of flexibility.

Table 2.3: Extended Typology of Flexibility

Forms of Flexibility	INTERNAL	EXTERNAL
	Core	Periphery
FUNCTIONAL Task, Qualitative	Multi-tasking, teamwork, training,	Sub-contracting
CONTRACTUAL Numerical Employment Labour-market Quantitative	(Voluntary Part-time)	Temporary work Part-time work Hire-and-fire
TEMPORAL	Overtime, annualisation	Work on call, (seasonal)
FINANCIAL Wage Pay	Profit-sharing	Wage moderation
SPATIAL Geographic	Intra-company Transfers Part-teleworking	Inter-company Lending Full-teleworking

2.4 The relationship between labor market flexibility and unemployment

European nations present high rates of unemployment, especially nowadays, which constitutes an important current issue with strong social economic impact. Below we present the diachronic evolution of unemployment rates among the member of the EU for period 2005-2014 (Table 2.4)

Table 2.4: Unemployment rates 2005 – 2014 (EU)

GEO/TIME	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
European Union (28 countries)	9,0	8,3	7,2	7,1	9,0	9,7	9,7	10,5	10,9	10,3
Euro area (18 countries)	9,2	8,5	7,6	7,6	9,6	10,1	10,2	11,4	12,0	11,6
Belgium	8,5	8,3	7,5	7,0	7,9	8,3	7,2	7,6	8,4	8,5
Bulgaria	10,1	9,0	6,9	5,6	6,8	10,3	11,3	12,3	13,2	11,9
Czech Republic	7,9	7,1	5,3	4,4	6,7	7,3	6,7	7,0	6,7	6,3
Denmark	4,8	3,9	3,8	3,4	6,0	7,5	7,6	7,5	7,1	6,5
Germany	11,3	10,3	8,7	7,5	7,8	7,1	5,9	5,5	5,2	5,1
Estonia	7,9	5,9	4,6	5,5	13,8	16,9	12,5	10,2	8,7	--
Ireland	4,4	4,5	4,7	6,4	12,0	13,9	14,7	14,7	12,0	12,0
Greece	9,9	8,9	8,3	7,7	9,5	12,6	17,7	24,3	27,5	--
Spain	9,2	8,5	8,3	11,3	18,0	20,1	21,7	25,0	25,8	25,1
France	9,3	9,2	8,4	7,8	9,5	9,7	9,6	10,3	10,2	10,1
Croatia	12,8	11,4	9,6	8,4	9,1	11,8	13,5	15,9	17,3	16,3
Italy	7,7	6,8	6,1	6,7	7,8	8,4	8,4	10,7	12,7	12,6
Cyprus	5,3	4,6	3,9	3,7	5,4	6,3	7,9	11,9	16,9	15,3
Latvia	9,6	7,3	6,5	8,0	18,2	19,8	16,2	14,9	11,6	--
Lithuania	8,0	5,2	3,8	5,3	13,6	18,0	15,3	13,3	10,9	11,0
Luxembourg	4,6	4,6	4,2	4,9	5,1	4,6	4,8	5,1	6,1	6,3
Hungary	7,2	7,5	7,4	7,8	10,0	11,2	10,9	10,9	8,8	--
Malta	7,3	6,9	6,5	6,0	6,9	6,9	6,5	6,4	6,8	5,7
Netherlands	5,3	4,4	3,6	3,1	3,7	4,5	4,4	5,3	7,0	7,0
Austria	5,2	4,8	4,4	3,8	4,8	4,4	4,2	4,3	5,0	4,7
Poland	17,9	13,9	9,6	7,1	8,1	9,7	9,7	10,1	9,9	9,6
Portugal	8,6	8,6	8,9	8,5	10,6	12,0	12,9	15,9	15,3	25,1
Romania	7,2	7,3	6,4	5,8	6,9	7,3	7,4	7,0	7,3	7,3
Slovenia	6,5	6,0	4,9	4,4	5,9	7,3	8,2	8,9	9,8	9,8
Slovakia	16,4	13,5	11,2	9,6	12,1	14,5	13,7	14,0	14,1	13,9
Finland	8,4	7,7	6,9	6,4	8,2	8,4	7,8	7,7	8,3	8,5
Sweden	7,7	7,1	6,1	6,2	8,3	8,6	7,8	8,0	8,0	7,8
United Kingdom	4,8	5,4	5,3	5,6	7,6	7,8	8,0	7,9	7,1	7,9

Source: Eurostat

As we can see from the table above table, at the end of 2005 the employment rate of the EU-28 was 9.0% and was steadily decreasing until 2008. At that time, EU-28 unemployment rate hit the lower rate of 7.1% before significantly increasing in the wake of the economic crisis. Between 2008 and 2010 the rise of the unemployment level was more than 7 million (9.7%). Until the end of 2013, the unemployment rate

has increased significantly to 10.9%, recording the highest level of more than 26 million. Eurostat recorded a small decline of the unemployment percentage to the rate of 10.3%, in May of 2014.

It is noteworthy to mention the highest unemployment rate has been reported to Greece, in 2013 with 1.35 million. For the year 2014, Eurostat have not yet provided statistics for Greece and Cyprus holds the 3rd place, with a 16.7% percentage and 74 thousand unemployed.

Thereby, the combat of unemployment plays a key role in European policy that aims to improve the employability, to active the inactive population and promote labor flexibility.

Neoclassical economists believe that labor market flexibility is the solution to the unemployment problem, because the decrease of employment is a consequence of the high labor and the extent of workers' social rights. Great emphasis has been given over the past 40 years on labor market flexibility and its contribution to job creation and economic growth. During the decade of 1960, labor market policies tried to promote efficient and flexible labor markets, and by 1984 economists had identified that the reason for the increasing level of unemployment in Europe was the inefficient and inflexible labor market (Brodsky, 1994). Flexibility is considered to be an essential tool against unemployment and Europe chose adjusting it from the early 1990. Especially in times of persistent unemployment, the most efficient policy is to make the labor market more flexible. However, sociologists sometimes contest flexibility because it may sharpen social inequalities, social conflicts and marginalization phenomena (EC, 2007).

The rigidities of labor market are usually reported that cause high unemployment in European nations. We present the following indicators of labor market rigidity that would expect to influence the unemployment levels:

- Unemployment benefit system

Economic theory and previous empirical studies (Nickel, 1998; Elmeskov et al., 1998; Nunziata, 2002) have identified that the level and the duration of unemployment benefits have a significantly positive impact on unemployment. Programs of unemployment compensation that provide long term high benefits result higher

unemployment, because individuals are less likely to look for a job if financial incentives to do so are limited. Moreover, recent studies (Bernal-Verdugo et al., 2012; Hagedorn et al., 2013) are in consistent with this conclusion without degrading the importance and necessity of a flexible labor market. They emphasize that policies increasing labor market flexibility should reduce unemployment only if they are properly designed and applied. Therefore, micro- and macro-studies on OECD countries over the decade revealed that it is essential to protect workers, rather than jobs. This means providing unemployment insurance, generous in level, but conditional on the willingness of the unemployed to train for and accept jobs if available (Blanchard, 2006). So more “flexibility” may require to be supplemented with more intervention to provide active help in finding work. From previous empirical studies it is clear that lower short term benefits would reduce unemployment, but these policies is important to be accompanied by more (not less) active labor market policy.

- Labor taxes

Significant labor taxes are those that form part of the wedge between the real product wage (labor costs per employee normalized on the output price) and the real consumption wage (after tax pay normalized on the consumer price index). These are payroll taxes, income taxes and consumption taxes. Despite a large number of empirical investigations (Nickell, 2003) the impact they have on unemployment remains a subject of some debate and disagreement. Bassanini & Duval (2006), Belot & Van Ours (2004), Daveri & Tabellini (2000) and Nickell (1998), and other studies have revealed that high labor taxes tend to raise unemployment level. Moreover, some observers believe that employer’s costs associated with social insurance and other labor taxes produce higher level of unemployment, by raising total labor costs and forcing employers to rely on alternative solutions, such as overtime work, instead of hiring new workers (Brodsky, 1994). However, other studies are less convincing regarding the influence of labor taxes to unemployment (Nunziata, 2002; DiTella & MacCulloch, 2002). Generally, although payroll taxes reduction is a perennial suggestion to reduce unemployment, we may perhaps conclude that taxes may have a negative effect on unemployment in the long run, which is a smallish effect, and it relates to the burden of taxation in total, rather than to payroll taxes in particular (Jackman et al., 1996).

- Employment protection legislation (EPL)

This includes all types of employment protection measures, whether grounded primarily in legislation, court rulings, and collectively bargained conditions of employment or customary practice. The adoption of measures that aim to reduce employment protection has two opposite results. From one point of view, it may reduce long-term unemployment, since it increases hiring. On the other hand this positive impact almost automatically offset by the fact that the application of the same measures has as result the increasing firing and thereby reduces short-term unemployment (Jackman et al., 1996).

Although hiring, dismissal procedures, and other employment protection measures are often referred as causes of persistent unemployment in Europe, the effect on overall unemployment is not clear yet. Strict EPL is associated with low employment rates; however there is some argue whether this is a causal relationship or not. On the other hand, lack of evidence does not imply insignificance. Serious problems with the data and methodology may cause the ambiguity in the results of cross-country studies, since it is very difficult to measure the stringency of EPL and to take into account other relevant factors (Young, 2003).

In fact, as shown in Table 2.4, two countries with high rates of unemployment (Ireland 14.7% and Slovakia 14% at the end of 2012) have a labor market that does not have very strict rules of protection according to OECD database. Consequently, this indicates that the problem of unemployment is much more complicated and its resolution requires a combination of different measures and adoption of broader socio-economic policies. Nevertheless, weaker protection legislation of employment protection gives to the companies the benefit to adapt faster their staff according to their needs and also helps the labour force to alternate between employment and unemployment or between different jobs.

Despite the fact that there is no unanimous conclusion in the research results, there is some general consensus that there is not a clear and statistically significant relationship between labour market flexibility and unemployment (Θεοχαράκης, 2002). We need to understand and examine more variables and conditions in order to explain unemployment.

2.5 Study of flexibility – competitiveness

During the 1990s, a deceleration of European productivity presented and the European economy slowed down. As a consequence, the region appeared to be at a risk of losing its competitive edge. The European Union, in order to prevent this from happening, began to take measures such as adopting the ‘Lisbon Agenda’, to implement a set of structural reforms to introduce liberalisation and flexibility into the labour market of Europe and cut away obstacles to competition (EC, 2007). However it is essential that this emphasis that is given on flexibility for improving competitiveness should not endanger the ‘European Social Model’ (ESM) that predicts an improved quality of life for European citizens. Consequently, the basic aim of the current chapter is to examine and present whether a flexible labour market contributes to long-term competitiveness, and also socially and economically sustainable development (the European Social Model).

Mainstream economics consider cost saving as the most important component in global competition. Labor market flexibility leads to the improvement of resource allocation, and therefore it gives the advantage to employers to use their workforce in line with the demand of their product/service, it also contributes to a better distribution of working time and thus reducing the cost of overtime and possibly the total labor cost, since the flexible staff has reduced wages, insurance contributions and labour rights (benefits, annual leaves etc). Thereby, flexibility triggers growth and prosperity, and that makes it essential and vital in competitiveness. However, there is no document that the improvement of competitiveness is only achieved with reducing the labour costs per unit of product. There are countries, such as Germany, which have high unit labour costs, but their performance in international markets are outstanding, while there are others with reduced labour costs, but their competitiveness present steady deterioration. Such an example is Greece, where according to the Labour Institute (IN.E) data, the cost of labour, per unit of output, during the period 2000-2006, for the whole of economy expressed in dollars and compared to the corresponding cost of 35 other developed countries, has increased by 13.1% versus 24.6% in the EU of 25.

According to the data of the Economic Research Centre of Cyprus, labour costs, per unit of output in the period 2002-2010 was high compared with other countries in the Euro zone, and as a result Cyprus is becoming less competitive with major trading partners. This occurred despite an increase in labour productivity averaged 1.7% over 2002-2007 and 0.9% during the period 2008-2010, and despite the increase in labour supply by the flow of foreign workers (mainly from Eastern Europe) after the Cyprus entry to the European Union in May 2004.

It is noteworthy to report that if employers apply labour flexibility based on their own interests without taking into account the importance of upgrading, human capital in the long-term, potential negative consequences will arise and it is possible to mitigate or even eliminate the possible positive contribution in competitiveness through low cost of flexibility.

From a different point of view, and according to a variety of researches which mainly derives from labour relations, working conditions and sociological research, it is argued that improving competitiveness through labor costs reduction, may lead to a reduction of job security and commitment of the workforce and to a degradation of the relationship between work and personal or family life (EC, 2007). Enterprises should not be lured by the short-term benefits of cost saving that may gain through flexibility. Beyond flexibility, they have to invest in other fields, such as innovation, skill enhancement and satisfaction of workforce, to both avoid high costs and be more sustainable to long term. It is certain that a lot of effort, policy intervention and imaginative experimentation are required in order to achieve the right combination of the components that were mentioned above, but when employers manage to equip their workforce with the suitable skills, improve their working environment and satisfy their needs, then it is much likely that these components would affect staff productivity/creativity and therefore company's profitability and competitiveness.

Flexibility is a term commonly used in the context of EU employment and industrial relations but its meaning is still disputed. Especially nowadays it is necessary to fully understand the multidimensional and complex concept of flexibility and incorporate it correctly in labor relations by all the member states, instead of sticking to outdated methods of organizing work.

Even though the relationship between labour market flexibility and unemployment is not statistically significant and does not necessarily ensure the creation of more jobs, there is no doubt that it distinguishes the dynamics of the labour market and enables the new jobs that are generated from economic growth, to be covered much more easily. Thus, these policies who tend to increase labour market flexibility, have to be properly designed to improve the employment's quality and to minimize potential negative short-term impacts on inequality and job destruction, in order to be able to participate in unemployment reduction (Bernal et al., 2012). On the other hand, the complete lack of flexibility in an organization entails rigidity and negatively impacts the profitability and growth of a company. Equally, excessive flexibility makes the enterprise fragile with negative effects not only to profitability. High levels of flexibility are possible to lead to coordination problems or to dedication problems of the staff or even to skills development problems (Gavroglou, 2006). Moreover, the reduction of a workforce's job security and their commitment to the company through a misuse of labor flexibility, could negatively affect productivity and creativity. Accordingly it is necessary, for any member state, to identify the ideal level of use of traditional and flexible employment in order to strengthen its dynamism, competitiveness and profitability, while maintaining time the support and security of its workforce.

In an attempt of recognizing the flexible labor market's employment policies, in the following chapter we will present the significant examples of Denmark, Netherlands and German which they have managed to successfully apply the concept of flexibility.

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CHAPTER 3: SUCCESSFUL APPLICATIONS OF FLEXIBLE FORMS OF EMPLOYMENTS IN EUROPE

3.1 Introduction

Nowadays, it is widely known and recognized by many countries the effect of applying flexible and innovative new insights concerning adaptability in their employment systems, in order to reduce unemployment rates.

Denmark and Netherlands always had one of the lowest unemployment rates in the European Community (6.5% and 7.0% respectively for 2014) which made the researchers mostly speak about the Dutch and Danish employment miracles (Schneider & Bernhard, 2010; Bredgaard & Larsen, 2008; Günther, 2007; Schwartz, 2001). In contrast, Germany was a country with much higher unemployment rates, but has managed to impressively decrease unemployment and to become a prominent example for other countries. In this chapter, we will present and compare the role of flexible forms of employments in the employment policies of those three countries, with a fairly comparable economic structure.

3.2 The German Model: New strengths and new challenges

3.2.1 Lower employment threshold

Between 2002 and 2005 Germany introduced intensive reforms which made the German labor market much more dynamic. After 2005, an economic upswing was observed, simultaneously with the creation of many more jobs than in previous years. This resulted in a reducing of the unemployment rate and all these structural improvements were remarkable for the country. Germany has achieved to halt its structural unemployment problems and at the same time to lower the employment threshold. German labor market is now much more flexible and the amount of economic growth that requires to keep employment levels in stability or to allow them to develop is now lower than before the applying of reforms. This lower employment threshold is responsible for the significant increasing of the number of people in employment since 2005 and the remarkable progress achieved during the crisis years (Caliendo et al, 2012; Eichhorst & Marx, 2011).

3.2.2. Wider Range of Employment Contracts and a Broader Remuneration Structure

Up until the end of the 1990s, the country's political and academic concern was focused on the unemployment rates and the low numbers of people in gainful employment. Germany has achieved to integrate a significant number of people into the labor market, which made the differences within the labor market subject of debate. In particular, a growth in low-paid work and the number of new employment contract types that offer less stability was observed.

Firstly, these atypical types of job contributed to the fact that many more people have been able to enter in the German labor market than in the past. Furthermore, some changes in Germany have been slow to take effect compared to other countries and have started to have an impact in the last ten years (Manow & Eric, 2000).

Permanent full-time employment in Germany remains stable since 2000. At the same time, the wage gap between those at the top and those at the bottom has been widening, even for full-time jobs. This trend is linked to the fact that there are now less workers who are covered by collective contracts and the private sector have increased the offered jobs, where the kind of atypical jobs are much more widespread.

During the last few years, the economy of Germany has become significantly more competitive. It has achieved to keep unit labor costs in stability or even decrease them. This was the result of continuous rise of the productivity, in combination with ongoing wage moderation. Increased flexibility of working hours using short and long-term flextime systems have led companies to return to international competition. This rise is much higher than that recently seen in other countries and illustrates a specific German strategy (Manow & Eric, 2000).

3.2.3 Germany as a Role Model

Germany is the only country that didn't experience a huge unemployment rise, and performed remarkably well during the global financial crisis of 2008. Actually, in 2011 the country achieved to reach the highest level of employment since reunification, while keeping the increase in the number of working people relatively stable.

Germany successfully managed the financial crisis with only a few negative consequences for the labor market and this is attributed to increased flexibility in terms

of working hours and pay. It is considered to be a pioneer in the use of flexible working hours and short-time working, because was the first country that used and developed these instruments more extensively than other countries. The country succeeded to protect and ensure its experienced workforce during the difficult year of 2009, at the crisis' peak, by making a few minor adjustments and using short-time working (Manow & Eric, 2000).

The main significant structural changes in German labour market were the extension of the short-time work, the reduction of positive balances on working-time accounts and flexible labour contracts.

- The extension of the short-time work – Kurzarbeit

The basic idea is that a company in “unavoidable” financial difficulties can apply the employment office for approval of a short time support package. The firm then reduces workers' hours and variable pay in proportion and also refrains from layoffs. In case workers have a child living in the household, they receive 60 or 67% of the net pay of their lost hours (normal working hours minus actual working hours). Works councils agree to the application of the short-time work package at the firms and also monitor them (Burda & Hunt, 2011).

Funding for short-time work is implemented, in order to bridge a phase of joblessness, prevent job redundancies and avoid the costs of having to rehire staff once jobs are available again (Schneider & Bernhard, 2010).

Until the middle of 2009, the funding for short-time work was expanded to 24 months period by the government. Additionally, employees could fully receive their social-security contributions back by the Federal Employment Agency, if they choose to undergo training for upgrading their skills during the time of their short-time work period. Furthermore, the review and application procedure for companies was remarkably simplified (Schneider & Bernhard, 2010). Even temporary help workers in Germany, working on regular contracts, were eligible for short-time grants from March 2009 to March 2012 (Burda & Hunt, 2011). Short-time work programs have been used extensively by German firms during the crisis.

- Working time accounts

Another flexible staff management tool that has been extensively used by German employers is working-time accounts. This tool has improved flexibility at the enterprise level by allowing firms to adjust employment in response to fluctuations in demand. Working-time accounts permit employers to avoid overtime pay if hours per worker average to standard hours over a window of time. The number of hours that the employer owes to the worker is saved in a working-time account. (Burda & Hunt, 2011).

Working-time accounts provide disincentive for employers to layoff and thus help employment decline. By reducing surpluses in working time accounts companies delay to save money and often prefer layoff instead. However, a worker's account must be paid off upon layoff, either as a severance payment, or in the form of low hours at full pay before the layoff takes effect. So, firms using working time accounts postpone layoffs (Burda & Hunt, 2011).

- Flexible forms of contracts

It is often argued that Germany also followed a strategy of internal flexibility to modernize its labour market regarding 'atypical' jobs (Eichhorst & Marx, 2011). In this logic of reform, the traditional institutional framework of standard employment is maintained. However, this framework is also completed with a secondary section of more flexible labour contracts, such as fixed-term contracts, freelance work and temporary work agency employment (Schneider & Bernhard, 2010). Moreover, in Germany "mini-jobs" are one of the most prominent forms of flexible employment, which are mainly part-time employment with maximum payment of €400 per month. But, its total impact on flexibility and employment of the labour market is yet unclear (Dribbusch, 2010).

In the German economy, business-related services and manufacturing are similarly organized (though with more temporary contracts and less agency work). In personal services, where the high- skill balance is not applicable, 'hiring and firing' practices like mini-jobs are commonly used (Eichhors & Marx, 2011). Table 3.1 below shows by sector the percentage of mini-jobs relative to employment covered by social insurance.

Table 3.1: Standard employment relationships by sector, 1997 and 2007

	1997	2007	Difference
Energy and water supply	93.1	90.5	-2.6
Construction	90.6	84.1	-6.5
Manufacturing	90.0	84.1	-5.9
Transport and telecommunication	88.5	80.7	-7.8
Banking insurance	86.4	83.5	-2.9
Public administration	83.0	83.1	+0.1
Wholesale and retail trade, repair, hotels and restaurants	78.0	67.0	-9.0
Agriculture, forestry and fishing	75.3	70.6	-4.7
Real estate, business services	75.0	66.0	-9.0
Public and personal services	72.1	64.0	-8.1

Note: Standard employment relationships comprise both full-time open-ended contracts and part-time work of more than 20 hours per week.

Source: Mikrozensus.

It has to be noted that the share of standard employment is much higher in traditional core sectors of manufacturing and services such as construction, energy and water supply than in public, personal and business services. As Table 3.1 shows sectors which already had a low percentage of standard employment in the late 1990s experienced the most significant declines over the last decade while sectors exhibiting a large percentage of open-ended full-time jobs continued to do so (Eichhors & Marx, 2011).

According to many researchers German labour market still lie in high wages and social security costs, complex taxes and tight labour market regulations. In German, full-time working contracts with high levels of job security, low labour turnover, continued investment in training, and mandatory social insurance continue to prevail to its business environment. Even if significant reforms limited the realm of unemployment insurance and brought in higher flexibility at the margin, it was achieved by a liberalization of collective bargaining, allowing for a great deal of flexibility on the plant level in terms of working time and remuneration and not by increasing external flexibility through minimising easing dismissal protection. Thus, they underline that

the labour market has to be made even more flexible and the tax and welfare systems have to be reformed (Eichhorst & Marx, 2011). However, standards jobs are more flexible themselves due to flexible working time and remuneration arrangements and long-term wage moderation has made them cheaper and more attractive to employers.

Although it may be tempting to consider working time accounts for Cyprus, it is important to be circumspect when comparing labour markets across countries. Their functioning is conditioned by the system of labour relations and their interaction with the whole spectrum of labour market institutions. It is noteworthy that working time accounts in Germany are more prevalent in large firms, which have more resources to manage the complex task of human resources planning, and which are overseen by works councils.

3.3 The Dutch labor market model of flexibility

On the “War of the models: Which labour market institutions for the 21st century?” Richard Freeman (1998) in his speech, called the Netherlands “the only part-time economy in the world, the new champion of the Continent, with a finger in the dike of unemployment”.

Indeed, in the Netherlands the rate of part-time work is very high and combined successfully to low unemployment and low inequality. What is truly remarkable is the fact that the Dutch labour market has strong competitive corporatist features. Essentially, since two decades Dutch employers and trade unions, with the support of the government, agreed on a policy to reduce unemployment by increasing labour market flexibility (Remery et. al, 2002). Wassenaar Agreement’s terms included wage moderation, higher margins for part-time jobs and a more flexible labour market.

More specifically, the Dutch miracle consisted by a corporatist consensus of unions and employers on an exchange of wage restraint for a reduction in average full-time working week, for achieving a fundamental redistribution of labour. According to Becker & Schwartz (2005), part-time employment was considered to be one of the instruments to achieve this redistribution.

The Netherlands is the world champion of part-time employment, with the number of part-time jobs reaching 50 percent of all employed persons and impressively increasing. Additionally, the Netherlands have the highest rate of part-time work among young people in Europe (25%) which would suggest that entry into the labour market is usually affected through part-time jobs (Remery et. al, 2002). Therefore, the percentage of workers with a long tenure is higher at each age (Euals et al, 2011).

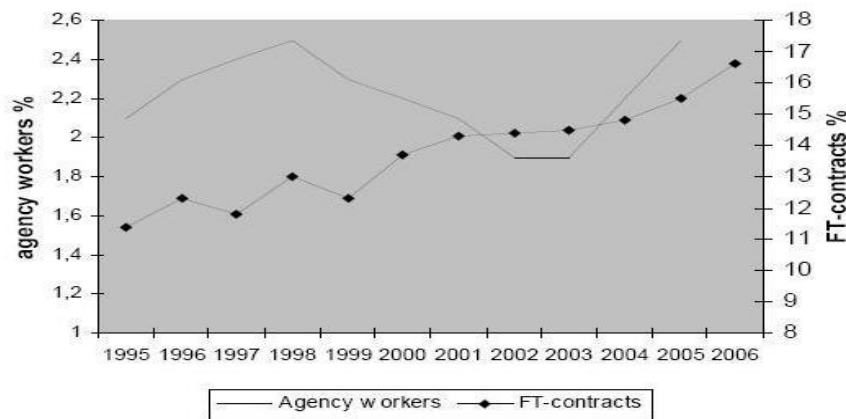
The Netherlands concentrate their efforts to increase labour market flexibility on flexible labour contracts. Flexible labour contracts in the Netherlands are time restricted contracts, less than one year, usually without fixed time of working hours. Employees with such contracts are considered to be flexible workers, thus they substituted standard workers (Remery et. al, 2002). The number of such contracts, particularly for women and juveniles, amazingly increased until 2001.

Thereby, the frequency of flexible forms of employment increased rapidly. More and more employers have resorted to such contracts to achieve the increase of hiring and firing flexibility and to extend probation periods. Fixed-term contracts and temporary agency work (TAW)² are significant (Remery et. al, 2002). Furthermore, an equally important form of employment in the Netherlands is self-employment (Euals et al, 2011).

Temporary agency work (TAW) and fixed-term (FT) contracts are functional equivalents and often used for the same reasons. Figure 3.1 shows the share of TAW and FT-contracts in the labor market of the Netherlands.

² There is collectively agreed definition of temporary agency work in the Dutch Collective Labour Agreement: *“labour under an employment contract, whereby one party as employee working for the other party as employer being deployed to a third party in order to – by an assignment of this employer- do work under the supervision and guidance of the third party.”*

Figure 3.1: Developments in share of TAW and FT-Contracts Netherlands



Source: CIETT 2008 and European Commission, Employment in Europe 2007/2008

As it is shown in Figure 3.1 the share of TAW contracts increased rapidly in the second half of the 1990s, then declined from 1998, and started to increase again in 2005. In 2006, the share of TAW jobs equaled that of 1996. However, the share of FT-contracts has increased steadily during 1996-2006 (Houwing, 2010). Houwing (2010) considers that the increasing share of FT flexible labour contracts is mainly affected by the implementation of the Flexibility and Security Law (F&S Law) in 1999, which aimed to combine flexibility and security (Houwing, 2010).

In the late 1990s reforms in flexibility and security led to easier use of such contracts. In general, these “atypical” workers have a lower level of social security (e.g. rights to unemployment benefit, holidays, pensions etc.), employment security and earnings (57%) than the permanent staff (Madsen, 2007; Salverda, 2000). The main purpose of the Dutch flexicurity legislation was to fix this imbalance. Flexicurity is a term that we will extensively discuss on the last chapter.

Legislation prohibited discrimination between employees based on working hours. Dutch flexicurity measures have been taken basically to spread work, care and education more uniformly over the lifecycle. There has been an introduction of a maximum number of successive fixed term contracts and a maximum of the total length of consecutive contracts (respectively 3 contracts, 3 years) to flexible workers with employment protection. Also, active labour market programmes have been extended and regulations have been introduced for providing temporary agency workers with

employment protection, rights to training, wage guarantees and supplementary pensions. In brief, workers on temporary contracts strengthened their position without compromising labour market flexibility.

Despite the high frequency of part-time work and flexible labour contracts in labour market of the Netherland, employees often seem satisfied not to have a full-time job (Salverda, 2000). Euals, Cörvers and De Grip (2011) claim that *“the main observation is that while the Dutch labour market is relatively inflexible (because the share of workers with permanent contracts is high), it is also surprisingly flexible (because of the many temporary contracts among the young, and the rather substantial share of self-employment)”*.

3.4 The Danish labor market model of flexibility

From 1993 until now, the Danish labour market is crossing through a golden period, recording the lowest unemployment figures in Europe with social security. The development on the Danish labour market has attracted attention in several international reports, and Denmark is pointed as a good example (Auer & Casez, 2003; Egger & Sengenberger, 2003).

The Danish labour market model is high employment and low marginalisation. The successful combination of favorable international economic trends in the 1990s, flexible dismissal rules, a balanced macroeconomic management and successful political employment reforms (Hendeliowitz & Woollhead, 2004) resulted this remarkable evolution of Denmark. Danish mix of flexibility and social security have been conceptualised by the term “flexicurity”.

More specifically, there are three elements that affect the success of the Danish model: job mobility and employment protection, unemployment compensation system and a strong emphasis on activation.

- Job mobility and employment protection

The Danish labour market is characterized by high degree of job mobility of workers and high levels of job turnover. It is estimated that on average between 25% and 35% - a little higher for women than for men - of the Danish workforce change employer each year (Madsen, 2002; Bingley et al, 1999). Therefore, between a third and a quarter of the labour force are affected by unemployment every year. Given these flexible rules, the employers can easily dismiss employees during downturns and hire new staff when things improve. Furthermore, Denmark in 2011 held the second lowest place among the OECD countries in job tenure with an average rate of eight years (OECD).

This relatively easy hiring and firing of workers (Madsen, 2002) reveals the liberal regime of employment protection of Denmark, which is placed by OECD (2008) in a group of countries having the overall lowest strictness of protection of employees and especially in permanent employment. The Netherlands, for example, has, in contrast to Denmark, a rather restrictive system for dismissal of permanent employees.

Employment protection regulation (EPL) is considered to be a key factor in reducing unemployment and enhancing workers' welfare. It is also correlated with the scope of numerical flexicurity. In Denmark minimal protection for dismissal is only one of many policy instruments that apply in order to impact the flexibility of the labour market (Hendeliowitz & Woollhead, 2004).

A number of negative effects would be expected, such as insecurity of Danish workers, because of this low employment security and high level of job mobility. However, a recent study revealed that Danish workers do not react to the high level of flexibility with a strong feeling of insecurity. This could be explained from the predominance of small and medium-sized enterprises (SMEs) in the Danish industrial structure, the general improvement in the Danish labour market situation since 1994 and finally, the generous system of unemployment insurance (UI) which benefits paid to unemployed from the first day of unemployment (Hendeliowitz and Woollhead, 2004; Madsen, 2002).

- Unemployment compensation system

Most of unemployed people who are members of an unemployment insurance fund can demand unemployment benefits from the first day of their dismissal and for a maximum of four years, including activation periods. To qualify for unemployment benefits, the requirement for member is to have had regular market employment for more than 52 weeks within three years and have paid their fees to the fund (Hendeliowitz and Woollhead, 2004).

Unemployment benefits are calculated at the rate of 90% of their previous income, with a maximum amount of 145,000 DKK (19,400€) per year. The average replacement rate is around 70% and for low income production workers, the net replacement rate is around 90%, which is highest for single parents.

Finally, the unemployed that receive benefits are obliged to participate in activation programmes.

- The active labour market policy

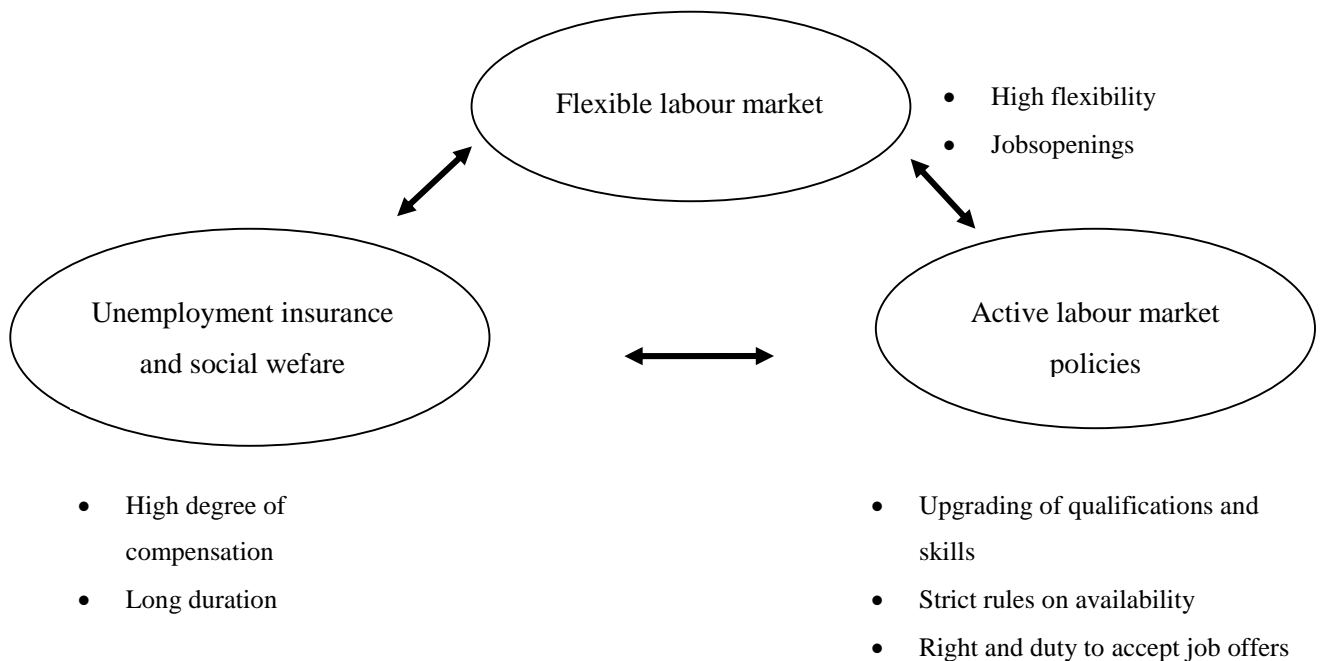
Since the end of 1990s Denmark realised that employed lack motivation and incentives to take job, so measures have been applied to enhance work incentives of unemployed. They managed to develop an active labour market policy which satisfies both qualification and motivational purposes. Denmark, according to its official site, spends approximately 1.5% of its GDP on active labor market policy (Denmark.dk).

The Danish active labour market policies consists of elements such as general and vocational guidance, job search assistance, individual job-oriented action plans, private and public job training, education, leave schemes, job rotation, and pool jobs on a full-time basis (Hendeliowitz and Woollhead, 2004). Additional, the mandatory “activation” of the unemployed includes the acceptance of job offers that are not relevant with their occupational area or the participation to training/retraining scheme three months after receiving unemployment benefits. If they fail to activate they will completely lose all of their unemployment benefits (Zhou, 2007).

The whole point of Dutch flexicurity legislation is to correct the imbalance between an inflexible labour market and an insecure labour market situation for the unemployed. The difference that the Dutch model has from common flexicurity is a third element: the active labour market policy. Dutch aim to encourage a development from job security towards employment security through a more active labour market policy. The below diagram 1 shows the dynamic interaction between these three elements comprises “the golden triangle of Danish labour market policy”, (Viebrock and Clasen, 2009).

Diagram 1

The golden triangle of Danish labour market



Altogether, these elements – flexibility in the employment relationship and in the same way high level of mobility, a generous system of unemployment benefits, and the new labour market policy of "activation" – make up the three corners of the Danish "golden triangle", the popular model often used to describe the country's success (Madsen, 2002).

3.4 Conclusion

Nowadays it is not easy to find a job on the European labour market. A flexible job can act as a stepping stone for many unemployed persons. The need for flexible forms of employment has been surfaced for many other reasons too, such as increasingly deregulated labor markets, the explosion of technologies advances, the survival in a fast-moving world of growing global competition and a work–life balance strategy for workers.

As quasi-prototypes of employment flexicurity, employment policies pursued particularly in the Netherlands, Denmark and Germany as analysed in this chapter have been portrayed as having successfully introduced the application of flexible forms of employment combined with social security. The Netherlands, with the consensus of trade unions, have incorporate flexible labour contracts – especially part-time employment - in its labour market successfully and use them as a tool for low unemployment and social inequality. Denmark, with the “Golden triangle” policy reveals the social discipline and integrate of the country .Germany, prompted by the high rates of unemployment, has made significant structural changes and internal flexibility has been increased, but still has to enhance external flexibility and further reforms have to apply especially to tax and welfare systems. It is undeniable however that the models of those three countries remain successful examples for other countries.

Keeping in mind those successful forms of employment, in the next chapter we focus on the specificities of the Cyprus labor market and we are going to examine the degree of implementation of flexibility.

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CHAPTER 4: LABOR FLEXIBILITY IN CYPRUS

4.1 Introduction

The Republic of Cyprus claims that the labor market in Cyprus is considered to be relatively flexible and well-functioning. In this chapter we will examine the features of the labor market in Cyprus, detect the difficulties and sources of inflexibility in order to reject or accept this assertion of flexibility in Cyprus' labor market. Finally we will complete the chapter with the suggestion that greater flexibility in the labor market of Cyprus, including flexibility of real wages, may be the key factor in safeguarding competitiveness and ensuring a smooth rise.

4.2 Features of labor market in Cyprus

The first social contract between the government, employers and the unions was signed in 1962 and secured the right to organize, negotiate, sign collective agreements and strike. In 1967 it was replaced by the Industrial Relations Code, which constituted an agreement between the social partners that adopted the main conventions of the International Labor Organization. Even today the Code governs the collective bargaining and dispute resolution processes and is considered to be a desirable feature of the labor market (Christofides, 2011; Eliofotou 2008).

Moreover, labor market institutions in Cyprus are generally considered to be well-designed, for example unemployment insurance, social welfare and conventions of hiring and firing. Generally, unemployment insurance and welfare settings do not provide motivation for inactivity and poverty. Excessive firing costs acts negatively to the incentive to hire.

Another good steady feature has also been the strong culture of entrepreneurship, which is a versatile and flexible part of the private sector. During crises wages, hours of work and profits decline and there is a rise in booms and shifting resources. Complementing the degree of entrepreneurship, Cyprus has a high proportion of foreign nationals who now work legally in the island and this elastic labor force has flowed where needs arose

at short notice and relatively low cost. In 2014, 12.5% of the employed were EU nationals and a further 8.7% were third country nationals (Christofides, 2011; Eliofofou 2008).

4.3 Sources of inflexibility

Although, usual macroeconomic and Lisbon benchmarks assess the Cypriot labor market higher than the EU average, labor supply shortages, particularly in low-skill occupations, lack of competitiveness in labor market and automatic inflation indexation of the wage-setting mechanism, constitute important challenges that need to be addressed.

4.3.1 Wage indexation

Currently, most increases in the Consumer Price Index are fed twice-yearly into nominal wages. This essentially unitary elasticity of wage indexation regarding the price level has been criticized by the IMF and the EU, while extensive academic literature supports these criticisms (Christofides, 2011; Eliofofou 2008).

To discuss these concerns, let's suppose that a country and the bargaining firm and union all face a sharp increase of oil price which feeds into other prices. The firm could possibly be using oil in its productive processes or other goods whose price may increase because of the oil price shock. The union should naturally demand a nominal wage increase to cover the CPI increase, but the firm is also natural to resist further increases in its costs. Depending on the financial situation of the firm, this increase may not be fully covered in a wage agreement. The implied moderation in the real wage costs of the firm will allow it to maintain its workforce and moderate the unemployment increase that might have resulted from the oil price shock.

By contrast, under full indexation, nominal wages will increase to reflect the CPI rise and this will result to higher wage costs of the firm in nominal and constant in real terms. The firm not only has to absorb directly and indirectly the rise in oil price, but also will not get any relief on the wage side, which makes absorbing the oil price shock much more difficult.

There is no way to avoid the fact that oil price increase will transfer wealth from us to the countries that we buy oil from. At the end of the day they are winning and we are losing. Wage earners are not the only ones affected, but capital loses too, considering the fact that firm's costs rise and profits decline. Furthermore, if firms fail to reduce the real wages of the employed workers as needed, they may be forced to lay off people. The real incomes of the unemployed will decline significantly more than the real wage loss of the employed under incomplete indexation. The system we have of indexation produces unemployment and lead to a much more unequal distribution of the oil price rise burden.

General productivity awards are not proportional to the sectoral circumstances and productivity increases, so there is a possibility of another difficulty to arise. Sectoral wage increases may be granted, even when productivity increases in the sector do not justify that.

Another factor affecting the level of wage increases is the implementation of the COLA system. COLA is responsible for the automatic adjustment of wages on the basis of general changes in price levels and, under the current system, the gross earnings of workers are revised at the end of every six months, based of the consumer price index percentage of the preceding six-month period. One of the basic arguments against the existing COLA system is that it undermines flexibility and competitiveness, and also it does not allow wages to reflect productivity differences in individual economic sectors, because of its uniform application (Eliofotou, 2008).

All these problems that occur regarding the complete and automatic indexation, lead to the need of reforming the wage indexation system in Cyprus. An extreme position is to make COLA always subject to negotiation, which is risky because this abrupt change could entail significant industrial relations difficulties. A solution that suggest our system suggests itself is to deactivate COLA under broadly agreed circumstances, which need to be discussed and accepted (Christofides, 2011; Eliofotou 2008).

4.3.2 Competiveness

For many years, real wages have been increasing much faster than productivity increases. According to the Cyprus Statistical Service and the EU, between 2005-2009, real earnings increased by 11.6% while productivity by only 4.2%. More specific in

2009, in the middle of the crisis, real earnings increased by 4% while productivity decreased by 1%. This leads to the conclusion that our competitiveness has been slipping. In fact, the international competitiveness rankings show that, the years 2009-2010 and 2010-2011 our position slipped from 34th to 40th.

Competitiveness is the building block on which a country's long term prosperity is based. It is the ability of a country to compete at international level that affects wage rates issues. It is worth mentioning that the measures that were taken recently to limit the budget deficit include levying taxes and various charges which reduce disposable incomes, not pre-tax incomes and this situation have remained the same. The government could have frozen nominal wages in a very wide circle (there is no progress through the rank), an act that would give a much stronger message, hoping that the private sector would have followed this example. Such an approach could both face the budget deficit and also strengthen the competitiveness of the private sector. Private sector is a sector that shouldn't be ignored, because it is responsible for the trades and competes at international level (Christofides, 2011; Eliofotou 2008).

4.3.3 Minimum wages

Low-skilled occupations, such as salespersons, clerks, auxiliary health care, school staff, caretakers in clinics, cleaners in commercial premises, guards etc, are mostly the ones that receive minimum wages. These occupations are not covered by collective bargaining agreements. According to Universal Declaration of Human Rights the minimum wage in the country for the year 2014 is €870 per month and rises to €924 after six months' employment. The intent is to raise the minimum wage to 50% of the median wage (Christofides, 2011; Eliofotou 2008).

As we can notice from the following table, this minimum wage target is high compared to other countries in the EU (Table 4.1), where the highest percentage of the (mean) wage is above 45% in only two cases. It is worth mentioning that minimum wage in Cyprus is applied for low-skilled, while in other countries included in Figure 2 minimum wage is applied more widely. Therefore the minimum wage in Cyprus seems to be high.

Table 4.1 Minimum wages in Europe 2014

EU Country	€ per month	Per hour
Belgium	1,472.4	9.10
Bulgaria	158.5	1.04
Czech Republic	315.0	1.95
Germany	-	8.50
Estonia	320.0	2.13
Ireland	1,461.9	8.65
Greece	683.8	3.35
Spain	752.9	3.91
France	1,430.2	9.53
Croatia	373.0	2.30
Cyprus	870.0	4.53
Latvia	286.0	1.93
Lithuania	289.0	1.76
Luxembourg	1,801.5	11.10
Hungary	341.0	1.97
Malta	702.8	4.15
Netherlands	1,456.2	9.11
Poland	353.0	2.31
Portugal	565.8	2.93
Romania	157.3	1.14
Slovenia	763.0	4.56
Slovakia	310.0	2.02
United Kingdom	1,244.4	7.43

* Source: WSI minimum wage database (as of: January 2014; converted into euros at the annual average exchange rate in 2013)

Denmark, Germany, Italy, Austria, Finland, Sweden, Iceland, Norway and Switzerland do not have legally determined minimum wages. Salaries are regulated by industry, company or individual agreements.

It should be noted that the recent increases in the minimum wage may lead to employment losses in the low-skilled occupations, weakening the law's intention. Additional, for the uncovered sectors the minimum wage could operate as benchmark and result in higher wages there. All these mechanisms affect competitiveness unfavorably, with the argument that €909 per month is not a living wage. Under current circumstances this could be truth, but in order to achieve a generally lower price and remain competitive level it is necessary to keep price and wage increases in check (Christofides, 2011, Eliofotou 2008).

4.3.4 Education, training, part-time and flexible work

Cyprus holds one of the highest proportions of tertiary education graduates in the world. More specific, looking at the proportion of people aged 30-34 who had completed tertiary education in Europe, Eurostat revealed that in 2012, a percentage of 49.9% of Cypriot residents had degrees, putting the country in second place after Ireland (51.1%).

Planning Bureau is developing a strategy of redirecting the economy towards the rendering of high value-added services, including tertiary education, research and innovation. Regrettably, this contradicts the fact that the budgets of the public universities are being cut (contrary to the strictures of the European Economic Recovery Plan) by amounts in the region of 20%.

However, there is much difference between education and training spectrum. Even if most Cypriots claim to be educated, technical education in Cyprus is poor. Until recently, there was not any system of professional qualifications (SPQ) available and learning was on the job and by doing. Additionally, since many of the professionals in these trades are self-employed and underreport their income, the messages to prospective new entrants to these areas are blunted, making these professions apparently less attractive. Thus, it is essential to complete the development of the SPQ and the New Apprenticeship Program and introduce them into the technical training venues, initial and continuing. This action would encourage society to accept these professions (Christofides, 2011, Eliofotou 2008).

4.4 Flexibility in the Cypriot reality

Generally speaking, labour markets have been going through dramatic changes over the past two decades, as low rates of economic growth, as a result of the recession in European Union (EU) countries in the first half of the nineties, have brought about changes in the management of production and the role of employment (Rompolis - Chletsos, 1995).

The Cypriot labor market can be characterized as highly inelastic, although in recent years there are strong pressures for more flexible practices. However, the strict regulation of the labor market frameworks has hindered rapid employment growth compared to less regulated countries. It is true that Cyprus is in a deep and protracted

economic recession. The 2008-2009 global crisis exposed Cyprus's vulnerabilities. Over the past several years, Cyprus gradually but persistently lost international cost competitiveness, resulting in widening current account deficits, a deteriorating international investment position, and a poor record of inward foreign direct investment. In effect, when the crisis came, Cyprus was significantly more exposed than others (EC, 2011).

The whole problem of unemployment has been at the center of discussions for many years within Europe and elsewhere. Despite its decrease in Europe in the previous years, unemployment is still considered - especially in nowadays cause of the financial crisis - not only an economic but also a major social issue in the EU (Anagnostopoulos, 2012).

Employees in organizations consider flexibility as lower forms of employment and believe that the spread in Cyprus is uncertain because of the low income generated. A proof of this attitude is that the proportion of Cypriot officials' remains in the same business for a long time is the highest among European Member states.

4.5 Conclusion

Consequently, the labor market in Cyprus is not as flexible and competitive as our official reports say. There is "still a room for more flexibility" as the government itself says, mentioning in particular mismatches between demand and supply in a number of professions and the significant number of low-skilled, foreign workers in the labor market.

Wage determination does not ensure competitiveness and the structure of real wages does not facilitate transfer resources in all sectors and required time. The financial crisis caused quantity changes, such as increases in unemployment, instead of real wage reductions. Government policies have turned their attention to fixing budget deficits and put on the back burner the efficient functioning of labor markets and competition.

Strong productivity growth in the past decades has offset wage growth and as a consequence keeping inflation low, so there is no convincing evidence of COLA's contribution to a self-feeding inflationary spiral. Therefore, more flexibility in the labor market, including of real wages, may be key in safeguarding competitiveness and

ensuring a smooth ride inside EMU, as the catching-up phase of Cyprus relative to the EU is completed.

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CHAPTER 5: FLEXICURITY IN CYPRIOT MARKET

5.1 Introduction

Flexicurity is a term that we used before in this paper, particularly referring to the labor market of Denmark and the Netherlands. In this chapter we will initially try to explain the concept of “flexicurity” and its basic ideas and dimensions, and later we will discuss the adoption of flexicurity from the EU countries and the implementations. Finally we will discuss the possibility of applying this concept to the Cypriot labor market and potential policies and reforms.

5.2 The concept of flexicurity and its dimensions

The term flexicurity introduced in 1995 by the Dutch sociologist, Hans Adriaans to capture the two key ingredients in the Danish (and Dutch) labor market model: the coexistence of flexibility and security. Translated into economic terms, the flexicurity system creates lower cost adaptation for both employers and their employees. This model has been seen as conducive to the job creation, structural change and growth, and low unemployment in Denmark considered as evidence in support of these concepts. However, the term has been extended to mean, in general, labour market settings that provide security for more flexible employment relations. This implies a new combination of employment security and protection through the social protection system, in the form of unemployment insurance and active labor market policies (Cazes & Nesporova, 2006).

The basic idea of flexicurity is that a notable part of European unemployment, mainly the share overcoming the US average level, is due to stiffens in the labor market which prevents demand from meeting supply. Flexibility of labor contracts, therefore, required to allow a more rapid and efficient dynamics of this market. At the same time, it is important to reduce the negative effects of an increased external mobility of labor with some policies aiding workers who have terminated or laid off modify their competences to meet newly demanded skills. The consequence is a deregulation of labor markets, decreasing the set of protections obtained, is complemented by active labor policies. The latter is consistent with unemployment benefits decreasing in time and conditional to participation to some educational program. Perception of “flexicurity”, pledge to overcome the tautness amid the labor market flexibility and

furthermore the social security supplying employees with the better option. It comes into the sides that, in the context of international and technological changes, greater demands on business are in need to adapt continuously. High levels of employment security will not depend only on protection of employee's specific job, but mainly for workers to stay on the job market, manage smooth transitions between jobs and make progress in their careers (Maselli, 2010).

At the end of the day, the aim of flexicurity policies should be to ensure the welfare and well-being of societies and all their members, now and in the future. It can, therefore, be argued that flexicurity is ultimately about security and sustainability. Alongside, the European ideas and principles on flexicurity first and foremost need to be seen as a framework which may offer inspiration and guidance to Member States to review and improve their labor markets in terms of establishing a sound balance between flexibility and security. Member countries should come up with their tailor-made policies and regulations geared towards their specific history, starting-position and political, institutional and cultural context (Maselli, 2010)

The model of flexicurity has both ardent devotees as rivalries, for former is regarded as a "panacea." One of the basic argument underlying flexicurity is whether flexicurity is the solution to the complex problem of unemployment. Dissidents believe that reducing unemployment is a consequence of the high labor cost and extent of the social rights of workers. Less consequently barriers to layoffs amount to fewer concerns of employers for new hires, while smaller labor earnings and weaker social burdens for business lead to more proposals to work. For others rivals flexicurity as a key factor for the degradation of labor rights. Regard it as coordinated neoliberal attack on workers and their living standards (Betliy & Feiler, 2011)

In a constantly change global economy where new products and new markets continually appeared and where certain are transformed relocated or die out. The labor market is anything but static. The response of the European Union countries to this challenge and increased competition is called flexicurity. Which means to address the needs of a modern labor market, where insuring, is efficient level of protection. Flexicurity aims to bring greatest security and flexibility to the labor market. In the interest of both workers and businesses through an intergraded approach that combines policy action across four components:

- the legal framework governing contractual arrangements, from both the perspective of the employer and the employee, through modern labour laws and work organization.
- active labour market policies, s that help people cope with rapid change, periods of unemployment, reintegration and ease transitions between jobs (transition security).
- lifelong learning system to ensure the continual adaptability and employability of all workers and to enable firms to maintain productivity levels.
- social security system that provide adequate income support and facilitate labour market mobility. These will include provisions designed to help people combine work with private and family responsibilities, such as childcare.

In line with the Strategy for Growth and Jobs, flexicurity should be seen in a wider context. Sound and financially sustainable macro-economic and effective micro-economic policies, as well as open and competitive product, services and capital markets create an environment where firms can seize emerging opportunities, fund new commercial ideas and create jobs. Similarly, flexicurity must be complemented by social policies aimed at the underprivileged and those furthest away from the labor market.

5.3 Flexicurity in Europe

A labour market radically changed by the twin forces of globalization and technological advances. Technology progresses, new products and services are being developed at an ever faster pace. This creates huge challenges for European companies and workers. Mastering new skills becomes ever more important. The employment and social securities of the past have to be changed and new securities need to be developed for the future. Active and passive labour market policies are an important element of employment and social protection, and their adaptation to the new, more flexible environment is crucial for the development of new employment-related securities. On the other side of the debate, the many authors opposing stronger deregulation and "flexibilization" of the labour market see a real danger for working and living standards in the rise of "non-standard work arrangements" (Obadic, 2009).

For several years, the term of «Flexicurity» (an abbreviation of flexibility and security) became a recurring theme in all discussions on reforms in the labour market into the European Union and in many Member States. As it is well known, the term itself comes from policymakers of Danish labour market and describes a hybrid policy combining the flexibility of labour markets and employment security and living conditions. Within the context of globalization, the concept appears, as the only way to activate the rates of growth and employment in the European Union by preserving some essential elements of the welfare state (ETUCE, 2008).

The debate on the issue held at European level for several years and has taken an important step in June 2007, when the European Commission adopted a Communication entitled "Towards Common Principles of Flexicurity", that is to say more and better jobs through flexibility and security.

In the general framework of the Lisbon strategy, the Commission asked the Council to establish a labour market policy at EU level, using the notion Flexicurity as a means to achieve the objectives of the Lisbon strategy for growth and jobs followed by the conclusions of the fifth-6 December 2007, which establish the "common principles" and finally confirmed by the conclusions of the Portuguese Presidency. These common principles are inspired by the successful example of the Danish Flexicurity and enable Member States to develop the "settings" to implement it (Section 3 of the Common Principles).

By the way, and apart from Treaty of Lisbon, The European Union is working hard to move decisively beyond the crisis and create the conditions for a more competitive economy with higher employment. The Europe 2020 strategy is about delivering growth that is: smart, through more effective investments in education, research and innovation; sustainable, thanks to a decisive move towards a low-carbon economy; and inclusive, with a strong emphasis on job creation and poverty reduction. The strategy is focused on five ambitious goals in the areas of employment, innovation, education, poverty reduction and climate/energy. To ensure that the Europe 2020 strategy delivers, a strong and effective system of economic governance has been set up to coordinate policy actions between the EU and national levels.

The 5 targets for the EU in 2020 are the following:

- 1. Employment**

75% of the 20-64 year-olds to be employed

2. R&D / innovation

3% of the EU's GDP (public and private combined) to be invested in R&D/innovation

3. Climate change / energy

Greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990

- 20% of energy from renewables
- 20% increase in energy efficiency

4. Education

- Reducing school drop-out rates below 10%
- at least 40% of 30-34-year-olds completing third level education

5. Poverty / social exclusion

At least 20 million fewer people in or at risk of poverty and social exclusion

The best way to explain theoretical concept of flexicurity on labour market is to describe it through alive country case approach. The most successful country which has succeeded in introducing "flexicurity" is Denmark. (Bredgaard & Larsen, 2007). Its labour market system combines a numerically flexible labour market with a high degree of social, income and employment security. Macroeconomic results could be seen through rapid reduction of unemployment and the economy has been enjoying an inflation-free upswing since 1994. Since the mid-1990s, Denmark has shown an impressive macroeconomic performance. Unemployment has declined from 12 to 6% and total employment has increased by almost 6% (Madsen, 2002).

Original flexicurity, policies pursued particularly in Denmark and the Netherlands portrayed as having successfully achieved new combinations between the labor market flexibility without compounding social protection. The model of Flexicurity in Denmark, as discussed in chapter 3, has been considered as a "magic tool" due to the dramatic increase in the employment rate in Denmark the 90s. Furthermore, this increase in employment did not cause any particular wage inflation, leading to an attractive image of the "non-inflationary growth» (Kongshoj, 2002). However, it is important to emphasize that the model and its implementation in the 90s in Denmark belongs to the history and the culture of the country and cannot simply "be transported" to other countries as usual socio-economic policy in the hope to achieve the same results.

Given these caveats, the model of Flexicurity can be summarized as a combination of three main factors: a) flexible labour market, b) generous unemployment benefits in case of unemployment and c) active labour market policy (LMP). These factors form the "Golden Triangle" of Flexicurity.

5.4 Implementations of flexicurity

Many researchers and flexicurity experts have made an effort to investigate the implementation of flexicurity in the EU Member States. However, due to methodological limitations only isolated policy instruments can be analyzed, rather than considering the overall national flexicurity systems. As a consequence, no comparisons concerning the different levels of progress of implementing flexicurity between countries can be given (European Commission, 2007; Council of the European Union, 2008; and Eurofound, 2010).

According to a latest study performing by Auer and Chatani (2011), five clusters are identified across Europe based on flexicurity models, showing the following main characteristics:

Northern European countries plus the Netherlands have high scores of both security and flexibility indicators. They score especially high on income, employability and representation security and low on job security, particularly in Denmark. On the flexibility sides all countries in the cluster boast a medium to high level of internal and functional flexibility.

Anglo-Saxon countries (UK, IE) combine average levels of labour market security with high external flexibility. In contrast to the commonly held belief, the overall labour market flexibility scores of this cluster are lower than those in the previous group, due to the mediocre performance of these countries in internal and functional flexibility dimensions.

In Continental Europe the common link with their labour markets is the combination of high income and employment security with average to low external flexibility. Furthermore there is high heterogeneity observed in this group concerning representation security.

In Mediterranean cluster the general characteristics are the high employment stability, lack of sufficient institutions to provide sufficient social security and lack of modern work organization.

In the Baltic States the lack of labor market security is much more visible. In particular income, employment and representation security score low in the last two groups.

In addition, most the new Member States of the European Union, with the exception of Slovenia, show a combination of below average levels of both flexibility and security.

One common conclusion from all the studies is that the countries in the same flexicurity cluster group have to deal with similar problems in order to comply with the flexicurity guidelines. To illustrate, the countries in the group that is characterized by a high level of job security but relatively rigid labor market have to face the challenge of making their labor markets more flexible. Similarly, the greatest challenge for the countries in the group with a high level of flexibility would be social security issues (Bertozzi & Bonoli, 2009). The countries in the cluster where both social security and labor market flexibility are relatively low have to face the most challenging situation of having to improve both pillars of the labour market (Mandl & Celikel-Esser, 2012).

5.5 Flexicurity: Is it possible to Cypriot Market?

The concept of flexicurity is relatively new and the discussion on promoting this principle is still at a very early stage on the Cyprus labor market. Furthermore, the present economic difficulties of Cyprus do not create a favorable environment for discussing flexicurity, especially in the context of wage cuts and acute need to reduce public spending. Moreover, the Cypriot discussion of flexicurity is conditioned by a relatively low proportion of salaried workers and a relatively fragmented labor market, and all the above are the reasons why flexicurity framework fails to correspond to the Cypriot reality (Voss et al, 2011; Soumeli, 2007).

In order to focus to the concept of flexicurity, following is presented the response of the Cypriot labour market against the four dimensions of flexicurity (Soumeli, 2007):

- External/internal flexicurity and contractual arrangements

Volunteerism and tripartite collaboration, as well as reduced state interventionism, are determining factors for the flexibility of the system, mainly with regard to bargaining on basic terms and conditions of employment (e.g. wages).

Ministry of Labour, in order to protect the workers, needs to harmonize of legislation regarding part-time employment and fixed-term contracts (CY0401102F, CY0704069I) also determine minimum wages for specific occupations (CY0405101N, CY0504101S). Moreover, according to the Ministry, the legislation regarding termination of employment, places very few restrictions on entering into and terminating employment relationships, thus providing a relatively high level of flexibility and mobility in the labor market.

In May 2010 the Cyprus Productivity Centre launched a pilot subsidy scheme for attracting people into the labor market through flexible employment arrangements. The scheme will run until August 2015. The plan includes wage subsidies for companies that wish to participate and also covers the employees' transportation costs. It aims at creating new work positions and reducing unemployment.

- Lifelong learning

The most important action is considered to be the integration of the strategy on lifelong learning, responsibility for which has been undertaken by the Planning Bureau in collaboration with the Ministry of Education and Culture and the Ministry of Labour. This was approved by the Council of Ministers on 7 November 2007. Some of the objectives of the strategy are: the maximization of each individual's skills and responsibilities, the improvement of mobility in the labour market, the promotion of active ageing and also the reconciliation of work and private life.

The apprenticeship scheme of Cyprus is currently undergoing major changes and reforms. The purpose is to make apprenticeships more attractive, more inclusive and more in line with the changing needs of the labor market. It will also serve to meet the specific needs of early school leavers by enabling them to join the system more easily.

- Active labor market policies

The Public Employment Services of the Department of Labour, the Productivity Centre KEPA (Κέντρο Παραγωγικότητας ΚΕΠΑ), the Department of Social Welfare Services and the Human Resource Development Authority ANAD (Αρχή Ανάπτυξης Ανθρώπινου Δυναμικού ΑΝΑΔ) have applied and continue to promote a series of measures in order to intervene in the labor market. In summary, we mention the following measures:

- ✓ An approach to facilitate mobility and rapid reintegration for people who desire to be reintegrated in the labor market
- ✓ The promotion of flexible forms of employment to increase employment for women through ([CY0702029I](#))
- ✓ The implementation of training programs continuously in a single or more than one enterprise by ANAD. ANAD is also responsible for re-establishing and operating the Scheme for Accreditation of Vocational Qualifications (second stage 2007-2013), as well as the system for evaluation and accreditation of training providers, which is fully operational since 2010. Additional, ANAD acts as advisor to enterprises for the improvement of their management, administration and adaptability.

However, according to the trade union organization SEK there are significant drawbacks in the system with the PES suggested to be understaffed and undertrained to support the increasing number of unemployed.

- Supportive social security system

For the purpose of providing protection and facilitating the transition from one job to another, services and income support are offered as follows:

- ✓ Unemployment benefit for six months
- ✓ Public assistance for people with low incomes
- ✓ Social services for the care of children, older people, people with disabilities and dependants.

For this purpose specific schemes are implemented:

- ✓ Scheme to Subsidize non-governmental organizations and local authorities for the development of family support services
- ✓ Scheme to Expand and Improve Entities and Agencies to Serve Children, Elderly and Disabled People and Other Dependants'
- ✓ Scheme to Provide Vocational Training and Improve the Employability of Recipients of Public Assistance

Nevertheless, according to the trade union reply to our survey, “the contributions are still [too] low to support a flexicurity system as stated in the Common Principles”.

Although the reforms that the Cypriot government has been applied during the last years, it seems that further changes should implement in order to adopt the flexicurity model. There are more weaknesses than strengths in the implementation of flexicurity in Cyprus: in eight out of eleven policy fields the situation is described as a weakness and in the remaining three (lifelong learning, supportive social security systems, assuring the financial sustainability of implemented measures) the situation is described as “neither strength nor weakness”. Specifically, in the field of the “security” component of flexicurity there are major changes to be done. Some changes should focus on overcoming the weak coverage of certain sectors by the flexicurity principles and improving social and employment security for workers in sectors with “very atypical” contractual arrangements (Voss et al, 2011; Soumeli, 2007).

In general, it is evident that the concept of flexicurity is a response to the needs European labor markets are facing and can also to become a useful tool, so as European Member States accomplish to maintain and improve competitiveness whilst reinforcing the European social model. EU Member States have recognized the benefits deriving from flexicurity and the need to develop innovative policies to help people stay in employment whilst ensuring that companies remain competitive on the global stage.

However, the flexicurity concept clearly points out some of the main problems facing labor markets in many European countries, but standing alone it is not a concrete model to solve any of those. Therefore, policymakers in each Member State should aim to introduce a set of tailored measures to provide a whole support system, rather than introducing isolated individual flexicurity measures, in order to tackle the changing realities in labor markets.

Nevertheless it is a fact that some European countries have become prominent “Flexicurity” examples, (such as Denmark and Netherlands) and the rest Member States can learn by their success. However, it is important to emphasize that these successful models cannot simply "be transported" to other countries as usual socio-economic policy in the hope to achieve the same results.

Regarding the adoption of flexicurity by the Cypriot labor market, we can conclude that there are shortages in all four flexicurity pillars. Lifelong learning and mobility are not yet everyday reality. Full-time indefinite contracts prevail, while more flexible contracts are rare. The questions arise also around effectiveness of subsidies and their rationale. Social support needs also to be developed to offer an appropriate level of assistance to all employed, independent on the contract. Therefore, quick and deep reforms are inevitable for Cypriot labor market.

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CHAPTER 6: COMPARATIVE STUDY AMONG GERMAN, DUTCH, DANISH AND CYPRUS LABOR MARKET

In an era of rapid globalization, where European competition appeared to be in danger and the unemployment rates are increasing, there is no doubt that more flexibility is needed. The meaning of flexibility is still disputed, though it is frequently used in the context of EU employment and industrial relations. Thereby, all the European Member States is important to develop consensus labor market policies and highlight to their workforce, employers and unions that mobility of the labor market is a sign of a healthy and strong economy and should not be discouraged.

During the past years, there has been extensive research aimed at clarifying the contribution of flexibility to job creation and economic growth. Labor flexibility is a useful tool and with a proper introduction and application by European Member States, new jobs will be covered much more easily and the quality of employment would be improved.

From the perspective of entrepreneurs, the driving force behind the flexibilisation of labor relations it is the decrease of labor costs and the utilization of the increased productivity of human resources, with a view of enhancing companies' competitiveness. Nonetheless, the measures that should be used should not misuse labor flexibility and reduce their workforce's job security; otherwise flexibility may negatively impact the profitability and growth of their companies.

In the current paper we tried to explore the concept of flexibility that supports and complements also the European social model.. We also recorded the major trends in European labor market through the examination by studying of the Danish, Dutch and German labor markets. Those three countries used employment policies that successfully combine flexibility of labour markets, employment security and living conditions. Consequently, their flexicurity models remain successful examples and provide important information on how other countries should tackle the changing realities in European labour markets and ensure their competitiveness in international level. However, each Member State of the European Union should implement employment policies according to the needs of its own country and the specificities of

the labour market. Successful employment policies of a country don't always achieve the same results in other countries.

As far for the Cypriot labor market, which is characterized as highly inelastic, despite the strong pressures for more flexible practices in recent years, it is essential to enhance labor flexibility and employment security, in order to combat the high rates of unemployment and strengthen competitiveness and growth. There has been a wide range of reforms recently, which move Cypriot labour market to the correct direction. Greater labor flexibility has become of vital importance to firms and should consider as key in safeguarding competitiveness and ensuring a smooth ride inside EMU, not as an adjustment to the crisis.

Consequently, further changes should be applied by the Cypriot state in the flexicurity context and a deep reorganization of Cypriot social policy system is inevitable. The main challenges that the Cypriot government has to face concerns the modernization of the employment protection system, the improvement of active labor market policies, the reform of education and training systems, the transformation of undeclared work to legal employment and the facilitating transition to labor market, especially for the young. An appropriate sustainable strategy for addressing these challenges will make the labor market more adoptive to the rapidly changing business environment.

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CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

In the current paper we tried to explore the concept of flexibility that supports and complements also the European social model. We also recorded the major trends in European labor market through the examination by studying of the Danish, Dutch and German labor markets. Those three countries used employment policies that successfully combine flexibility of labour markets, employment security and living conditions. Consequently, their flexicurity models remain successful examples and provide important information on how other countries should tackle the changing realities in European labour markets and ensure their competitiveness in international level. However, each Member State of the European Union should implement employment policies according to the needs of its own country and the specificities of the labour market. Successful employment policies of a country don't always achieve the same results in other countries.

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Next follows recommendations about how flexicurity can be adjusted in the economy of Cyprus regarding the examples we examined already about German, Dutch and Danish labor markets.

1st recommendation

As we examined already the flexicurity model in Netherlands is focused on part time jobs. Richard Freeman (1998) is calling the Netherlands “the only part-time economy in the world, the new champion of the Continent, with a finger in the dike of unemployment”.

Taking this under consideration a small economy like Cyprus especially on the suburbia of the island and far from the big cities, can use this model. This model would show a long term result but it could reduce the unemployment level. It can help the society and improve the social problems. By creating part time jobs for the people are years unemployed is like giving them a boost to increase their standard of living.

2nd recommendation

Germany has a very competitive economy at the moment and this is a result of the continuous rise of the productivity, in combination with ongoing wage moderation.

The way they increased flexibility of working hours while they used short and long-term flextime systems made them leaders in the international competition (Manow & Eric, 2000).

Again this is something that can be adjusted in the Cyprus economy. Even though Germany is the leader of the international competition because of the market share they have, some improvements can modify local economy in Cyprus and make it better. For example what they did in Germany was to keep the labor cost the same and increase the level of productivity. In Cyprus they can increase working hour's flexibility using short and long-term flextime systems. In order to keep the employees happy and increase the productive but in the meantime keep the labor costs at a minimum (Manow & Eric, 2000).

3rd recommendation

The successful Danish example of flexibility is based on the dynamic interaction between those three elements: Job mobility and employment protection, unemployment compensation system and strong emphasis on activation.

The strong social security system is the major benefit on the Danish example and it gives options to the workers to get in and out of unemployment and enhancing workers' welfare (Hendeliowitz and Woollhead, 2004).

In Cyprus there is an option to improve the social insurance system in order to make people feel safer and take risks to change jobs. It would be a great opportunity for the Cyprus economy to build relations with the employees and employers like in Danish economy.

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