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Adopting 'Flexicurity' in Indian Labour Market

SUMIT KUMAR MALVIYA¹

ABSTRACT

The term 'flexicurity' epitomize the evolution of labour market in Europe. In simple terms, it is a compromise between 'flexibility' and 'security' in the employment relationships. It is not a new concept in the era of globalization. It initially drew inference from the Dutch and Danish practices which combined labour market flexibility and security. The concept has been seen as beneficial where the social security system is developed along with ensuring a proper social protection and increasing the flexibility of the labor relations regulation. The need for such a policy arose owing to the conditions wherein the excluded categories, especially the unemployed, including women, require a bare minimum access to a secured work. The reason behind discussing such a concept that has its base in the European practices, is to identify whether such a blend of two opposites cater to the problem of social security in India with special emphasis on the unorganized sectors.

The research has been set to analyze this European concept with reference to the Indian labour market and analyze to what extent is can it be held applicable. It would include the analysis of the theme, Flexicurity in its basic essence with respect to its origin in Europe. Thereafter, the research deals with the evaluation of the flexibility and security variables in the 19 European countries in order to understand the applicability and need of flexicurity in the countries. It also takes into considerations the drawbacks held while achieving the set aim of flexicurity. However, the main agenda would be to find whether the concept finds any relevancy with the Indian labour market and if it does, then to what extent can it be enforced in India.

Keywords: Flexicurity, Labour Market, Unorganised sector.

I. INTRODUCTION

The entire model of flexicurity is based on the assumption that the terms 'flexibility' and 'security' are not different or opposed to each other, rather complimentary in nature.² The model of flexicurity functions on a two-way basis, on one hand, it tries to facilitate flexibility in the market with respect to labour market, work organisations and labour relations, while on the

¹ Author is an Assistant Professor at MNLU, Nagpur, India.

² Xinxuan Cheng & Yanfaang Yu, *Analysis of the Operational Effects of Danish Flexicurity Model*, 2 REV. EUR. STUD. 87 (2010).

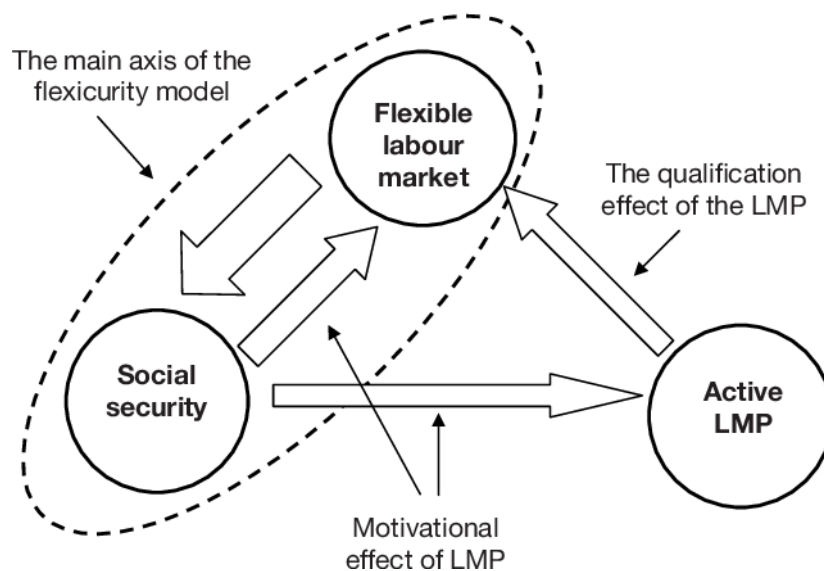
other, it tries to strengthen the security in terms of employment and income. The two elements required to fulfill the criteria of flexicurity include³:

- (i) Both, the flexibility as well as the security should be the consequences found on the basis of effort along with coordination rather than an isolated delivery.
- (ii) The concept of flexicurity must include the disadvantaged groups also within its ambit of labour market rather than concentrating on the insiders of the same.

In the given scenario, the second essential becomes more important to understand as it involves those groups of people who are the most vulnerable to the issues of job-insecurity.

II. FUNCTIONING OF THE DANISH MODEL OF FLEXICURITY

The notion of flexicurity draws its origin from Danish and Dutch nations during the mid-2000s.⁴ Danish flexibility model incorporates limited job protection, generous unemployment benefits and active labour market policy which subsequently creates a mobile and transaction-friendly labour market.⁵ The basic reasoning behind the incorporation of such a scheme is the presumption that limited protection in terms of job would make the employers to run the risk of hiring weaker groups as the cost of redundancy is lower.⁶



The Danish Flexicurity model functions on three elements essentially⁷:

³ *Ibid*

⁴ *Supra* note 3.

⁵ T. Bredgaard, F. Larsen & P.K. Madsen, *The Flexible Danish Labour Market- A Review*, CARMA Research Papers, Aalborg University, CARMA (2005).

⁶ *Supra* note 3.

⁷ Thomas Bredgaard, Larsen Flemming & Per K. Madsen, *Opportunities and Challenges for Flexicurity- The Danish Example*, 12 EUROPEAN REVIEW OF LABOUR AND RESEARCH, 61-82, (2006).

- a) Employers can fire and hire at their will, without excessive costs for dismissing the employees.
- b) The employees who join and pay a certain subscription fee to the unemployment insurance fund usually get up to two years unemployment benefit after losing their jobs.
- c) Along with securing the employment for the citizens, the Danish government also provides for education and retraining programs in order to get back the unemployed population to work.

However, it would be wrong to give the entire credit of the success of the Danish economy to the single policy of Flexicurity, rather it is the balancing of macro-economic policy and trends in the international business cycle supplemented by the Flexicurity model, which aids the labour market.⁸

III. POLITICAL COMPONENTS OF FLEXICURITY

The European Union took into consideration the issue of flexicurity more explicitly in the Informal Meeting of Ministers for Employment and Social Affairs in 2006.⁹ According to EU, there are four possible ways in which the concept of flexicurity can be applied which involves¹⁰:

- i. Reforming the regulations: in order to achieve flexibility in the labor market the policies such as “Collective Labor Contracts¹¹” can be taken into consideration along with organization of modern work.

One of the common indicators used for comparison of regulations of labor relations, internationally is the Employment Protection Legislation which essentially measures three different aspects of employment namely, individual dismissal of workers with regular contracts (Table 1)¹²; additional costs for collective dismissals (Table 2)¹³; and regulation of temporary contracts (Table 3).¹⁴

⁸ *Ibid.*

⁹ Suzana Laporsek & Primož Dolenc, *The Analysis of Flexicurity in the EU Member States*, TRANSYLVANIAN REVIEW, pp. 125-145, (2011).

¹⁰ Commission of the European Communities, *Towards Common Principles of Flexicurity: More and Better Jobs through flexibility and Security*, COM (2007) 359 final.

¹¹ S Zartaloudis & A. Kornelakis, *Flexicurity between Europeanization and Varieties of Capitalism? A Comparative Analysis of Employment Protection Reforms in Portugal and Greece*, 55 JOURNAL OF COMMON MARKET STUDIES 1144-1161, (2017).

¹² OECD, *Strictness of Employment Protection- Individual and Collective Dismissals (regular contracts)* https://stats.oecd.org/Index.aspx?DataSetCode=EPL_R.

¹³ OECD, *Strictness of Employment Protection- Collective Dismissals (additional restrictions)* http://stats.oecd.org/Index.aspx?DataSetCode=EPL_R.

¹⁴ OECD, *Strictness of Employment Protection- Temporary Contracts*,

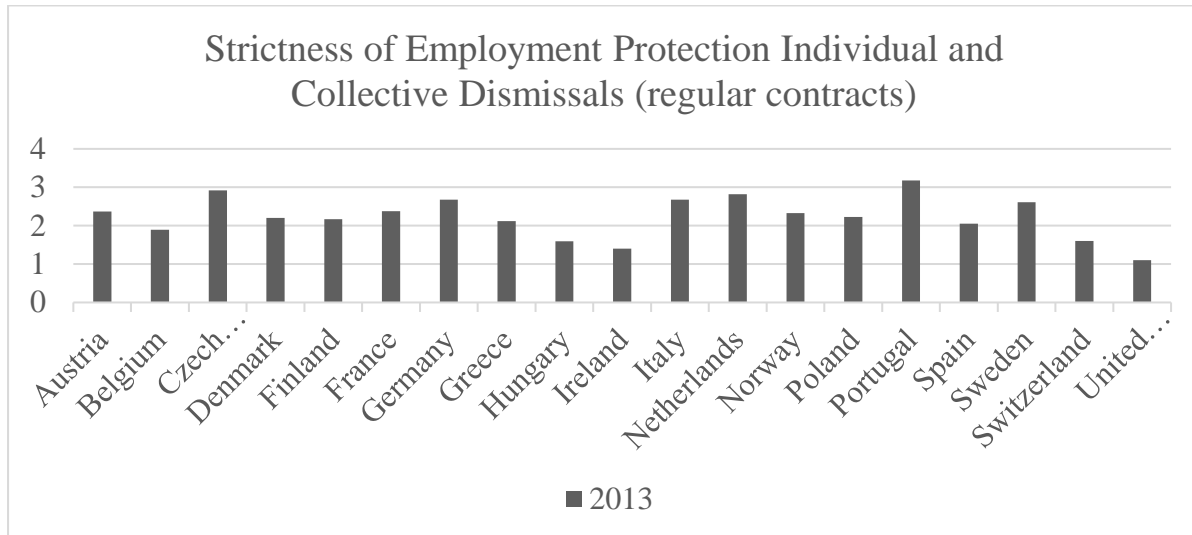


Table 1

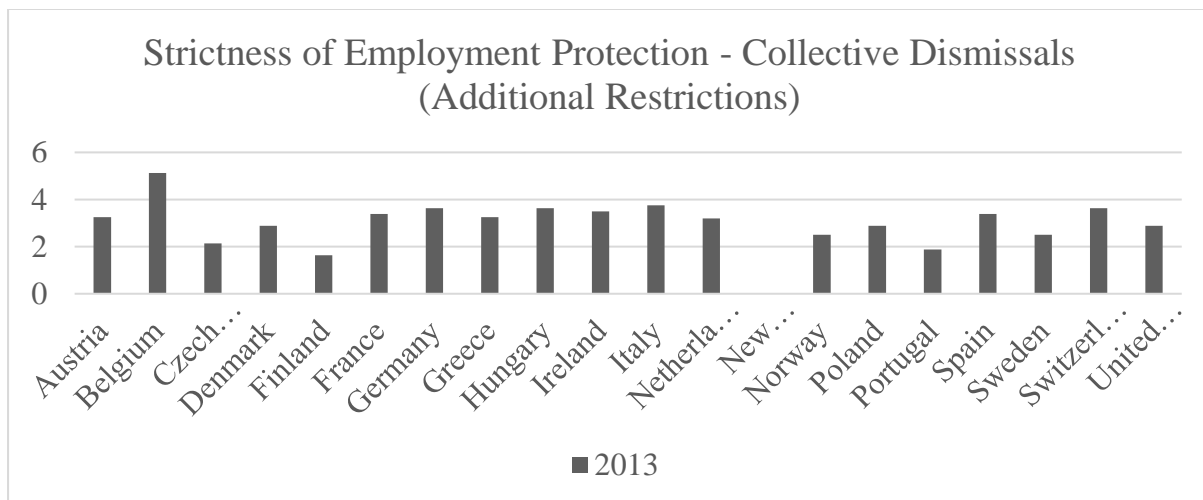


Table 2

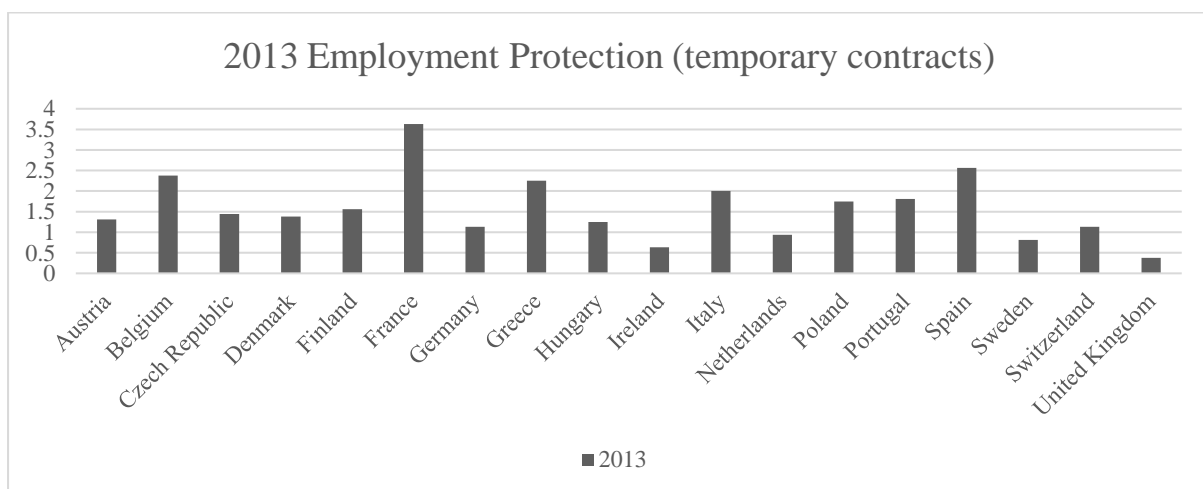
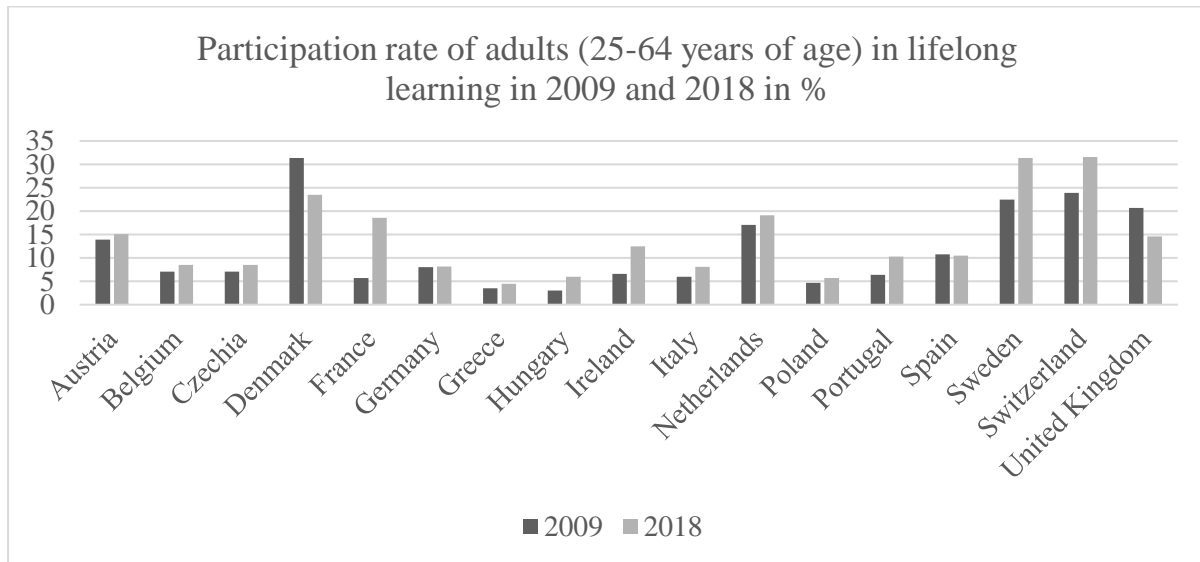


Table 3

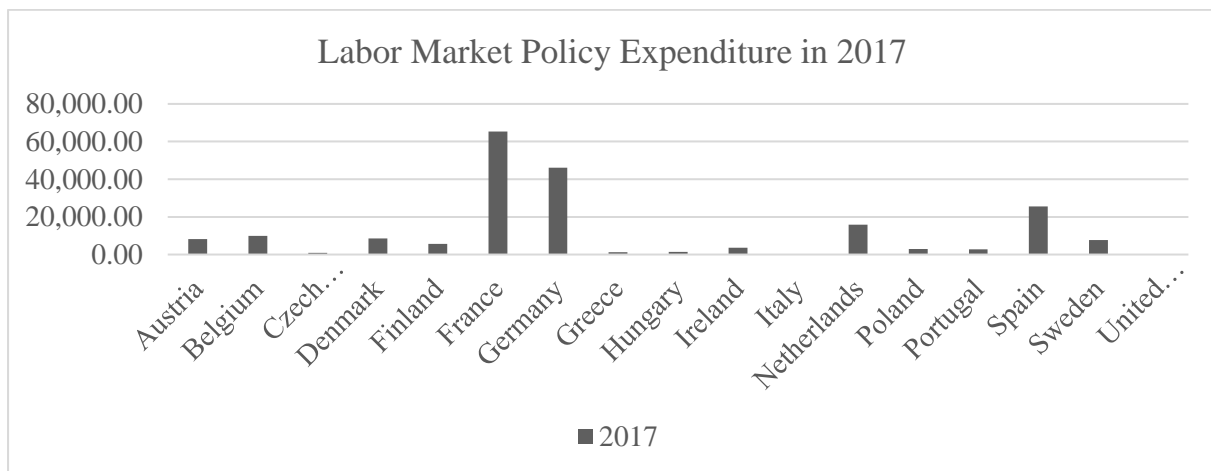
https://stats.oecd.org/Index.aspx?DataSetCode=EPL_T

- ii. “Strategies of Learning Lifelong”: This holds that objective of employing the labor for a long-run can be achieved by investing in the skill development and training of the available human resources.

Statistics have shown that the participation in lifelong learning programs is declining by age and the probable reason could be the level of public expenditure for education. The table given below shows the participation rate of adults in lifelong learning.¹⁵



- iii. Policies of the Labour Market: This implies formulating policy changes which could be easily adapted by the work force in labour market along with adding incentives for work. These changes also vary across different nations of European Union. The table given below shows the expenditure (in million euros) on labor market policies across these different nations.¹⁶



¹⁵ EUROSTAT, *Adult Participation in Learning (%) of population aged 26 to 64*, https://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=sdg_04_60.

¹⁶ Labor Market Policy Expenditure by type of Action, *Employment, Social Affairs & Industry*, EUROPEAN COMMISSION, https://webgate.ec.europa.eu/empl/redisstat/databrowser/view/LMP_EXPSUMM/default/table.

- iv. “Modern Social Security”: Social Insurance is required in order to ensure appropriate financial support along with encouraging employment with schemes such as unemployment aid, pensions and social work.

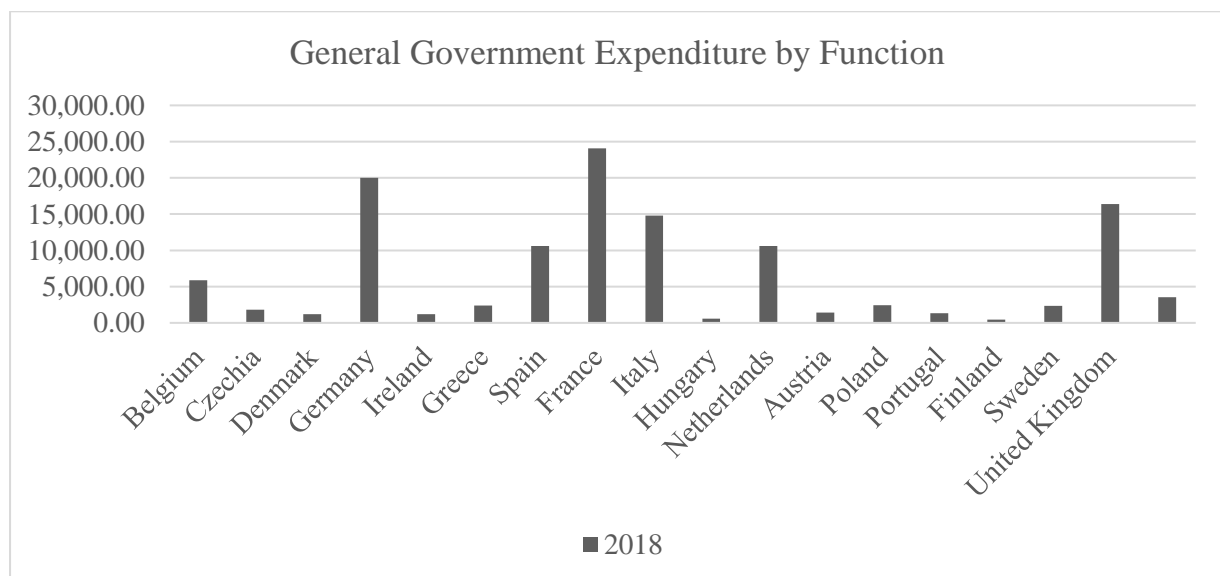
It takes into account factors such as Net Replacement Rate (NRR)¹⁷ which implies the ratio of net income while out of work (y_{netA}) and net income while in work (y_{netB}) that helps in measuring the effect of the move from employment to unemployment on household incomes:

$$NRR = \frac{y_{netA}}{y_{netB}}$$

Along with this, it also considers the effect of the move from unemployment to employment, often presented by the Employment Trap.¹⁸ A situation like this arises when opportunity cost of going to work is higher than the income received, in a sense, It discourages people from returning to work and being productive.¹⁹

$$\text{Unemployment Trap (\%)} = \left\{ 1 - \frac{(\text{net income in work}) - (\text{net income out of work})}{\text{gross earnings}} \right\} \times 100$$

The table given below shows public expenditure for social protection per capita (in euros) under the head of Modern Social Security.²⁰



Therefore, it can be inferred that though the economic analysis confirms that above mentioned four components could be mutually supportive and improve employment, the differences

¹⁷ JOAKIM PALME, PENSION RIGHTS IN WELFARE CAPITALISM: THE DEVELOPMENT OF OLD-AGE PENSIONS IN 18 OECD COUNTRIES 1930 TO 1985, (1990).

¹⁸ Gilles Saint-Paul, *The High Unemployment Trap*, 110 THE QUARTERLY JOURNAL OF ECONOMICS, pp. 527-550, (1995).

¹⁹ Christian Merkl & Dennis Snower, *Escaping the Unemployment Trap: The Case of East Germany*, Discussion Paper No. 3681, (2008).

²⁰ EUROSTAT, *General Government Expenditure by Function (COFOG)*.

between the member-states in terms of socio-economic, historical, cultural and institutional background leads to a different approach towards Flexicurity from country to country.²¹

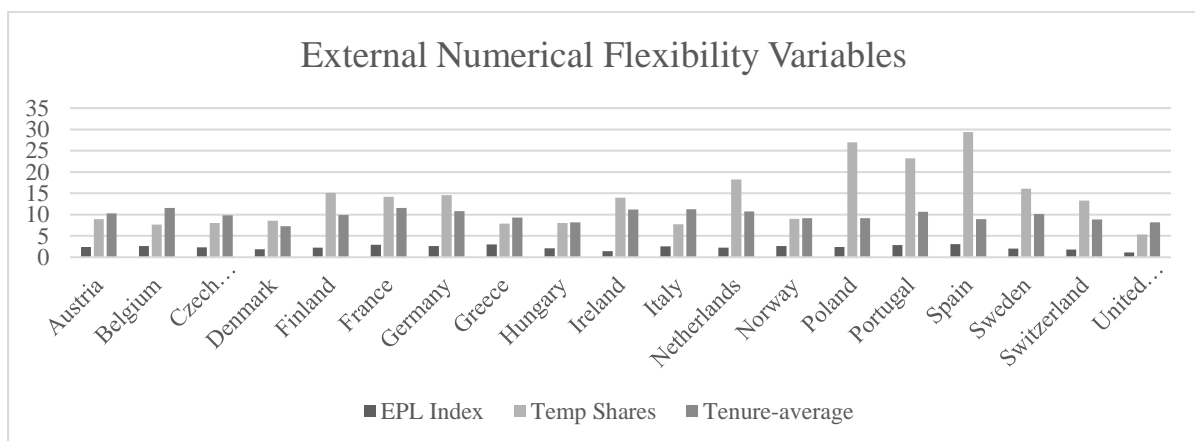
Thus, it would not be wrong to interpret that Flexicurity occupies a special space taking into consideration further development of the EU labor markets and economies. However, the area of concern remains whether to associate themselves with such a policy which calls for tackling problems such as increasing unemployment and different aspects of dealing with the post-crisis recovery.²²

IV. INDICATORS OF FLEXICURITY

Along with analyzing the principles behind the concept of flexicurity, it is equally important to take note of how the notion works economically. Taking into consideration the broader aspect, flexicurity has resulted in high-employment rates, low unemployment rates and low relative poverty rates as compared to EU average.²³ According to Heejung Chung, flexicurity can be analyzed through indicators such as external numerical flexibility, income and employment security, unemployment benefit and active labour market policy²⁴(ALMP) which have been discussed as follows:

1. External Numerical Flexibility

It can be adjudged on the basis of Employment Protection Legislations (EPL) index which includes hiring and firing of workers on temporary and permanent contracts. Major factors dealt under this index include, mobility rates and average tenure duration.²⁵



²¹ *Supra* note 13.

²² ANDRE SAPIR (ed.), BRUEGEL EMOS TO THE NEW COMMISSION: EUROPE'S ECONOMIC PRIORITIES 2010-2015, (2009).

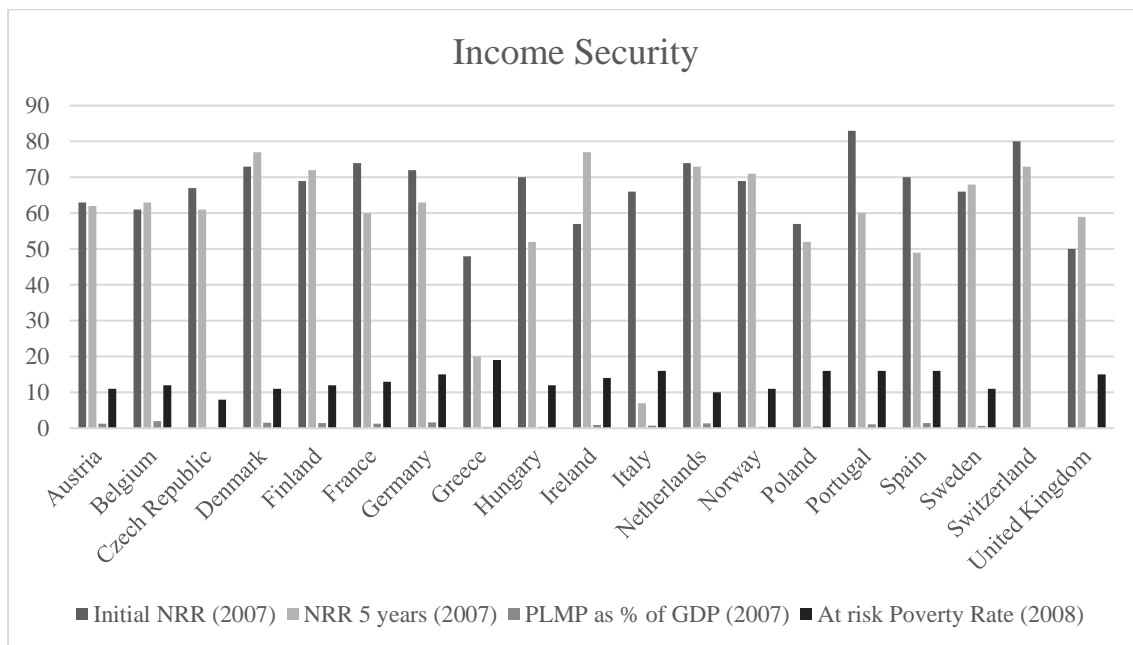
²³ OECD, Employment Outlook, *Boosting Jobs and Incomes*.

²⁴ P.K. Madsen, *The Danish Model of "Flexicurity": Experiences and Lessons*, 10 EUROPEAN REVIEW OF LABOUR AND RESEARCH, 187-207, (2004).

²⁵ Heejung Chung, *Measuring Flexicurity: Precautionary Notes, a New Framework, and an Empirical Example*, 106 SOC INDIC RES., 153-171, (2011).

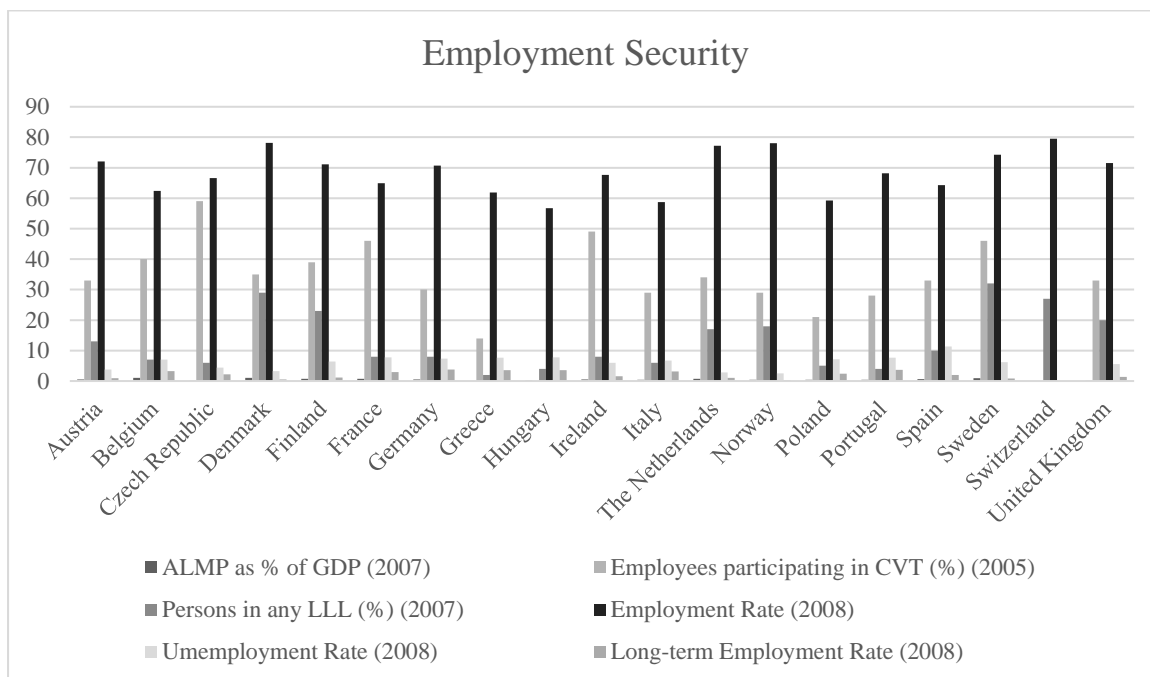
2. Income Security

This involves the efforts that are made in favour of the people who have lost their jobs. The Unemployment Benefit scheme plays a major part in addressing such issues. It further takes into consideration measures such as net replacement ratio and national income expenditures on the income maintenance of workers while evaluating the income security which forms the other facet of the concept of flexicurity. In addition to this, net replacement rate has been further categorized into Initial replacement rate, i.e. those employed for a shorter period of time, long-term unemployment benefit replacement rates and social assistance. According to Heejung Chung, the state of income security can be measured by investigating the number of persons that are above a certain level of income.



3. Employment Security

The active labour market policy (ALMP) can be analyzed as a substitute of the employment security effort at the national level, with the purpose of enhancing the employability of individuals that in turn increases the employment security of the workers. The public expenditure on ALMP can be treated as the “most commonly used index” as a percentage of GDP. Other notable factors include, life-long learning indexes and continuous vocational training done in enterprises.



V. THE INDIAN LABOUR MARKET

The National Commission for Enterprises in the Unorganised Sector (NCEUS) defines informal sector as comprising of “all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers²⁶”. The job security in the Indian labour regime has been guaranteed by various statutes such as the Industrial Disputes (Amendment) Act, 1976²⁷ but there are still other impediments which hamper the security of the employees in the Indian Labour market.²⁸ Similarly, the notion of flexibility finds its place in the Indian Labour market with respect to globalization and as a response to the agitations by the trade unions due to the stringent and rigid labour system.²⁹

(A) Applying the Concept of Flexicurity to Indian Labour Market

A labour market is said to be inflexible when the level of unemployment-insurance benefits is very high and the duration is considerably longer.³⁰ Taking inference from the European developments, it can be said that the Employment Protection Law involves both costs as well as benefits. While the former includes creating dualism in the labour market, restricting mobility

²⁶ National Commission for Enterprises in the Unorganised Sector, *The Challenge of Employment in India: AN Informal Economy Perspective*, Volume I -Main Report, April 2009.

²⁷ No. 32 of 1976.

²⁸ Sudipta Dutta Roy, *Job Security Regulations and Worker Turnover: A Study of the Indian Manufacturing Sector*, 37 INDIAN ECONOMIC REVIEW, pp. 141-162, (2002).

²⁹ Alakh N. Sharma, *Flexibility, Employment and Labour Market Reforms in India*, 21 ECONOMIC AND POLITICAL WEEKLY, pp. 2078-2085, (2006).

³⁰ K.R. Shyam Sundar, *Labour Flexibility Debate in India: A Comprehensive Review and some Suggestions*, 40 ECONOMIC AND POLITICAL WEEKLY, 2274-2285, (2005).

by entrapping the workers in the same profession and the similar, the latter consists of long-term contracts, investments in technology and the similar.³¹

The major argument which calls for inapplicability of the concept of flexicurity is the informal sector comprising of 93% of the workforce.³² The next hurdle occurs in the form of strict employment statutes in India which provide for security in terms of jobs but, they cease to achieve success in fulfilling the other facet of flexicurity, the flexibility.³³ Ultimately, the main loophole occurs with reference to the budget allocated to fund all such schemes which facilitates flexibility. In addition to this, financing an expensive model such as the Flexicurity would not only increase the tax burden but also widen the tax wedge.³⁴ Taking inference from the EU countries, which invests a huge amount for training its unemployed population, it is not an easy task for a country like India to do the same. Also, other labour market policies such as MGNREGS which provides incentives to the unemployed population has taken a back seat. Taking note of the Budget 2020, there has been a drop of 13% in the money funded for the same in the year 2020-2021 as compared to 2019-2020.³⁵ Thus, it would not be wrong to interpret that the Flexicurity model is indeed a very fancy solution to the problems of Indian Labour Market, but it is not practically and economically viable to implement.

VI. CONCLUSION

The notion of Flexicurity incorporates a hybrid between the security and flexibility present in the Labour market. The concept has its roots in Netherlands and Scandinavian countries where one can find its most successful application. However, studies have shown that the response to such a model has not been uniform across the different countries of EU, which initially adopted the same in order to overcome the post-crisis situation. It has also been found that such a model is merely supplementary to the practice of balancing macroeconomic policies and that, it cannot sustain on its own.

Considering the same with respect to the economy of India, at present adopting the model of Flexicurity will not be a very wise decision as it would become no more than a white elephant

³¹ OECD, Employment Outlook, 1999.

³² Prasanna Mohanty, "Labour Reforms: No one knows the size of India's informal workforce, not even govt" BUSINESS TODAY, July 15, 2019, <https://www.businesstoday.in/sectors/jobs/labour-law-reforms-no-one-knows-actual-size-india-informal-workforce-not-even-govt/story/364361.html>

³³ Pallavi Arora, *The Rigid Employment Protection Legislations in India and Its Impact on the Economy- Is Flexicurity a viable solution?*, 7 NALSAR STUDENT LAW REVIEW, pp. 40-66, (2012).

³⁴ *Ibid.*

³⁵ "Budget 2020: Allocation for MGNREGS slashed by Rs. 9,500 crore", THE HINDU, February 01, 2020, <https://www.thehindu.com/business/budget/budget-2020-allocation-for-mgnregs-comes-down-by-13/article30715200.ece>.

in the prevalent circumstances. A major problem being large number of people engaged in the informal sector. Not only this, the constant struggle with the allocation of budget has also resulted in the lack of fundings required for implementing efficient labour market policies which form the third pillar of the Flexicurity model. Thus, it would not be economically viable to introduce and practice such a model in the Indian context.

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