Flexicurity of the Labor Market through the Formal/Informal Duality, in the Context of Globalization

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The new stage of globalization, marked by deeper integration of work, creates new opportunities, both in terms of economic growth and job creation, but at the same time creates new challenges and problems in the labor market, such as: increasing labor market flows, exposing jobs to increased global competition and segmenting the labor market in formal and informal terms.

It is known that the main feature of the informal labor market, whether we are talking about a developed economy or a developing economy, is flexibility, and the essential feature of a formal labor market is security.

In any labor market, there is an increasingly fierce struggle between employers, who want more flexibility and employees, who want more security. Thus, was born the concept of "flexicurity".

This paper aims to approach the flexicurity of the labor market through the formal / informal duality in the current context of globalization and to show the optimal combination of job flexibility and the security of the workers, who occupy those jobs.

Keywords: *labor market, labor market formality/informality, flexicurity.*

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1. Introduction

The new era of globalization, marked by deeper integration of work, creates new opportunities not only in terms of economic growth and also for creating new jobs but, at the same time, creates new challenges and problems in the labor market as would be: increasing labor market flows, exposing jobs to increased global competition, and segmenting the labor market in formal and informal terms, whether we are talking about a labor market in a developed or developing economy.

Even in countries where globalization has a positive overall impact, people are dissatisfied with the fact that the current process of globalization tends to deepen the structural problems of the labor market. The opinions for and against globalization come from within the same countries depending on how different people have been influenced by globalization, in the sense that they have been the winners or losers of globalization, even if the economy they come from have gained from globalization. Just as any capitalist economy creates winners and losers, the

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labor market also separates workers into formally employed (winners) and informally employed or unemployed (losers).

The increasing flows of workers and jobs, registered in the labor markets of the capitalist economies, create high labor market frictions, which have made the natural rate of unemployment rise over time. While new jobs are created, others are abolished and not necessarily in the same sector of activity, in the same region or within the same business, not at the same time and obviously not in the same category of the dual labor market. There are situations where job flows do not take place within the same country, which means that jobs can be abolished in one country and created in another.

Everyone expected this new wave of globalization to bring more flexibility on the labor market. Economists and not only they hoped that with the new age of globalization, the labor market will respond better to internal shocks stemming from trade liberalization or privatization of state-owned companies in an economy in transition, and will adapt more quickly to new structural changes in economy, and labor relations are believed to become more volatile and shorter in duration. It was thought that employment would be radically transformed, namely that long-term working relationships would be replaced by short-term employment. This was nothing more than "translating into reality the transition from a cycle of globalization, based on the industrial model (which in terms of occupation is the equivalent of the model of long-term labor contracts) to another stage of globalization, namely that based on on the model of services, where jobs become more flexible, more volatile, and long-term employment contracts will only be exceptions in a labor market dominated by short-term working relationships "(Auer, 2005).

The alternative to "standard workplaces" is that of "flexible jobs" and the latter are losing some features related to: duration, stability and decency, in the sense that they become short-term jobs, less stable and less decent (by decency understanding all the rights deriving from that job, such as: decent wages, social security, syndication or other forms of protection of employees' rights (ILO, 1999).

However, some of these rights, which make a job to be decent, refer to social security, that necessarily implies a contract of employment, thus formality, while the flexibility of work brings with it more informality.

2. Flexibility of the Labor Market

In the literature, "flexibility" is defined as the transition from employment to unemployment and vice versa, as well as the transition from one job to another. This definition usually refers to the labor market of developed economies, whose functioning model is well known and where statistical data are available for the main macroeconomic indicators. In the developing economies, the use of identical indicators as in developed economies does not provide the same picture of the labor market, because the shift from unemployment to employment can take place in the informal sector of the economy. Due to the particularities of the labor market in developing economies, characterized by a high level of informality and the lack of very precise statistical data, in these economies we can call "flexibility" ”*the ease with which to enter or exit the labor market as well as the transition from one job to another*” (De Gobbi, 2007).

The formal labor market in emerging economies has often been a rigid one and this is because of the excess regulations in these economies. The lack of flexibility has been identified as the main (but not exclusive) cause of the expansion of the informal economy in those economies. There are three categories of regulation that affect the level of labor market flexibility, namely: *labor contract regulations*, including employment and dismissal, *collective bargaining regulations*, and *business start-up rules*. Regard to labor contracts, three types of labor contracts are usually practiced in developing economies, namely: *unlimited contracts*, *fixed-term contracts*, and *collaboration contracts for a particular activity*. In developed countries, fixed-term labor contracts are considered as an exception to a permanent employment relationship and are therefore subject to a number of conditions, such as the presence of a cause justifying the duration of a temporary contract or the termination of several temporary contracts over a certain period of time, instead of a single contract for an unlimited period. These clauses are missing from the law of developing countries, so that in these economies can be repeated concluded fixed-term labor contracts.

For example, the casual work for long periods of time in Kenya has always been used by private employers to avoid the costs involved in the dismissal of permanent employees. In addition, even when there are conditional provisions in labor law in developing countries, these are not respected and their infringement is not sanctioned by inefficient labor inspection systems and poor worker syndication (De Gobbi, 2007).

In the developed economies, unlimited working relationships are typical of the public sector, labor legislation in most developed countries offers public employees the possibility of hiring for indefinite periods of time and protects the careers of public servants, who have a special status in many countries.

Unlike most economists, who consider the lack of flexibility as the main feature of the labor market in developing economies, Standing (2006) considers the opposite and provides useful theoretical examples of workforce in developing countries that highlight the character predominantly flexible of jobs. Standing identifies six types of flexible employment, as follows:

- *migrant workers* - those who often move seasonally to: to work in agriculture in one place, to work in construction în other place, or to provide various services and so on;
- *walking workers* - differ from migrant workers, in the sense that they have a fixed place of residence, are available to work differently from what they have been doing and can have higher income because they can combine small-scale work in agriculture with seasonal or long-term work;
- *workers with labor contract* - whose main characteristic is that they are dependent on labor agencies, which rent workforce to third parties. Often, there is a subordinate relationship between agents and workers, which can be implemented whenever and wherever it takes in an extreme form of flexibility;

- *home workers* - work day by day and cover the need for occasional work;
- s*ubcontractors* - are part of contract staff, engaged in this form only to avoid paying social contributions or to make a company appear smaller, so as to fall under certain legislation;
- *reserve workforce* - is made up of those workers who can compensate in a period the fluctuating labor demand, absenteeism, incapacity for work due to illness, or other causes that leave a job to remain vacant at a time. Many companies in the industry operate with *reserve workforce* to cover these temporary workforce deficits. The reserve workforce is held close to the employer, who only exploits it when it is necessary to fill the lack of other employees.

Regarding to the informal labor market, whether it is about a developed or emerging economy, it is, as a rule, flexible, because the flows on a such market are very high. Switching from one economic activity to another and holding more jobs are very common in the informal economy and are often linked to seasonal work in agriculture. Labor informality is also a first step for most new entrants to the labor market, especially in developing economies, where young people, due to lack of experience, needed in most formal jobs, temporarily accept informal employment. Despite their heterogeneity and the variety underlying them, informal activities are generally highly unstable. "*Their instability has as their main cause the ease of entry/exit into these activities and their short-term character*" (Joshi, 1997).

Flexibility refers to: *labor mobility* (measured by the opportunity cost of urban revenue, urban unemployment and urban rents linked to informal gains), *education and training employees* (most informal sector workers are performing unqualified activities and are willing to accept low wages) and *discrimination and social exclusion* on ethnic or other criteria (disabled persons, womens).

In developing countries, and especially in low-income countries, where geographic mobility is quite high, the workforce involved in these movements is characterized by a low level of skills, both in the case of agricultural work, as well as in the case of black labor, as is usually the case with migrating from villages to cities. This mobility can be considered as lateral occupational mobility, as vertical mobility tends to diminish.

Concluding, we can say that, at this moment, the informal labor market is very good in terms of flexibility, which reaching the maximum threshold, unlike the formal labor market, where flexibility is much lower.

3. Security of the Labor Market

The main feature of decent work is the social security of workers. But in the new era of globalization, the alternative to "decent jobs" is that of "flexible jobs", meaning less stable and less decent jobs.

Work security has a much wider meaning than simple worker protection and job security. The extension of work security include also the notion of "protected mobility", according to security depends not only on employment security in terms of job stability, but also on the social security system to which work places belong. This definition includes both protection against income losses as a result of dismissal and the protection of workers during the transition to a new job, the provision of alternative forms of income through employment services, the provision of active programs for access to the labor market and the provision of income in the term of unemployment benefits.

Generally, in developing countries, the level of formal security in the formal sector is higher than in the informal economy, even though in the last few years the level of job security in the formal sector has been shrinking. However, in the formal sector of the economy there are different levels of job security, depending on the labor supply, if this is in the public sector of the economy or in the private sector. Public sector jobs remain the best option for a worker in terms of social security, even if public sector wages are often low and workers need an additional source of income.

The specialized literature refers to four forms of security addressed to developing countries, namely (De Gobbi, 2007):

- *Employment security* - refers to protection against arbitrary dismissals, employment and dismissal regulations, or the protection against accidents and diseases at work by health and safety regulations;
- *Security of competences and training* - refers to the opportunities offered to workers to develop new professional skills through apprenticeship, training or professional retraining etc;
- *Protection of workers 'representation* - protection and promotion of collective interests through the creation of independent employers' organizations and trade unions, with the right to strike etc;
- *Incomes security* - involves ensuring minimum incomes that can cover the minimal living needs of the poorest workers.

The very high level of flexibility, that employment in the informal sector of the economy registers, is unfortunately not correlated with an adequate security system, which is extremely low in the informal segment of the economy. Low income, insecure jobs (lack of legal protection), unstable employment (short-term) make both employment and income security uncertain. Since the informal labor market is governed only by verbal agreements, that are not subject to registration with state authorities, in case of litigation between workers and employers, the courts can not intervene.

In many industrialized countries, agricultural work is regulated through collective agreements, that can provide a balance between flexibility and security of work. In contrast, in developing countries, neither workers and companies too are not organized into associations and there is no trade unions and patrons, as in developed economies. Most workers, engaged in agriculture activities, are self-employed workers or work for subsistence. Globally, including in developing countries, it sometimes happens that national legislation regulates working relationships in agriculture, forcing workers and employers to conclude fixed-term labor contracts or labor contracts for specific work. When labor in agriculture has its own regulation, the protection afforded to workers is lower than in other sectors of activity, that comply with common labor law, but even legislation specific to agricultural activities is preferable than the lack of regulation. Where there are no legal regulations, especially in very poor economies, work in agriculture is carried out on the basis of unwritten laws coming from customs or practice (De Gobbi, 2007).

To get rid of the high level of insecurity in rural areas, many people decide to migrate to urban areas looking for a job. However, their best chances are to find employment in the informal urban sector, which does not provide too high level of income and job security. Mobility from rural to urban areas will be achieved as long as people who want to migrate will consider the following: *Earnings expected to be obtained from city work* (cost of living in the city, probability of finding a place taking into account the unemployment rate in the urban area), *the cost of opportunity*, *the cost of urban life*, *the cost of transport* etc. Balance is reached when an expected wage in the urban area is equal with the income from traditional (subsistence) agriculture (Harris and Todaro, 1970).

Regard to labor market security, we can conclude that this is specific, in particular, to the formal labor market and the informal labor market is characterized by a high level of insecurity.

4. Flexicurity on the Labor Market

Stable jobs, involving long-term employment relationships, are not always equivalent to good jobs, because stable jobs may be: *part-time jobs*, *unwanted by workers*, but accepted without any other alternatives or may *be temporary*. Many agree with the view that stable (long-term) jobs give workers more safety (security) than unstable jobs (short-term). Studies on workers' perceptions of job security show that there is a paradox between stable jobs and security, felt by workers, in the sense that security is not always positively correlated with the stability of a job, as it depends on others factors such as: the general labor market situation (unemployment rate) and the economy as a whole situation (Auer, 2005).

The data show that there are countries with a flexible labor market and unstable jobs, but with a high perception of job security and vice versa. Thus, it can be argued that a longer work relationship do not necessarily provide to the worker an increased security. A worker, stuck in a long-term work relationship, that does not bring him too much financial or activity satisfaction, being just an conjunctural job, will not feel safe, if the labor market does not provide him enough mobility to find another job (OECD, 2004).

In any job market, there is an increasingly fierce struggle between employers, who want more flexibility and employees who want more security. Thus, is born the concept of "flexicurity" (Creţu, 2010).

A balance between labor market flexibility and job security, accepted by both parties involved, employers and workers, is achieved when labor inputs adjust relatively easily to labor demand, ensuring, at the same time, a reasonable level of protection for workers. This balance is not only achieved through the creation of an adequate workplace framework, but also through an adequate social dialogue and the good functioning of the labor market institutions (De Gobbi and Nesporova, 2005).

The "Flexicurity" concept arose from academic debates in Western Europe and was introduced for the first time, in a law adopted in the Netherlands in 1999 entitled "The Law of Flexibility and Security", which stipulate the possibility workers to have permanent labor contracts with various recruitment agencies. These agencies placed the workforce with which they had contracts to various other companies for a certain period of time.

The "Flexicurity" term has been designed to respond to the growing unemployment and labor market friction in developed economies, characterized by a high degree of labor formality, frictions involving additional hiring and firing costs.

In developing countries and especially in economies with low incomes, the labor market is characterized by a large number of unpaid family workers and self-employed workers and the proportion of labor contract workers being extremely high reduced. In these conditions, such an economy with a large part of the informal economy (including work in agricultural activities) determines a high level of flexibility in the labor market, characterized in particular by occasional work, irregular earnings and worker protection measures.

In Figure no. 1, we graphically represented the axis of flexicurity for a better understanding of the concept of "flexicurity".

As can be seen from the below graph, the labor market flexicurity axis there is at the intersection of the points As, Bs and Cs (representing the level security of the A, B and C jobs) and the points Af, Bf and Cf (representing the level flexibility of the A, B and C jobs). Thus, the result of the intersection of the above mentioned points, represents the flexicurity of the A, B and C jobs, respectively the optimal combination of job flexibility and workers security.

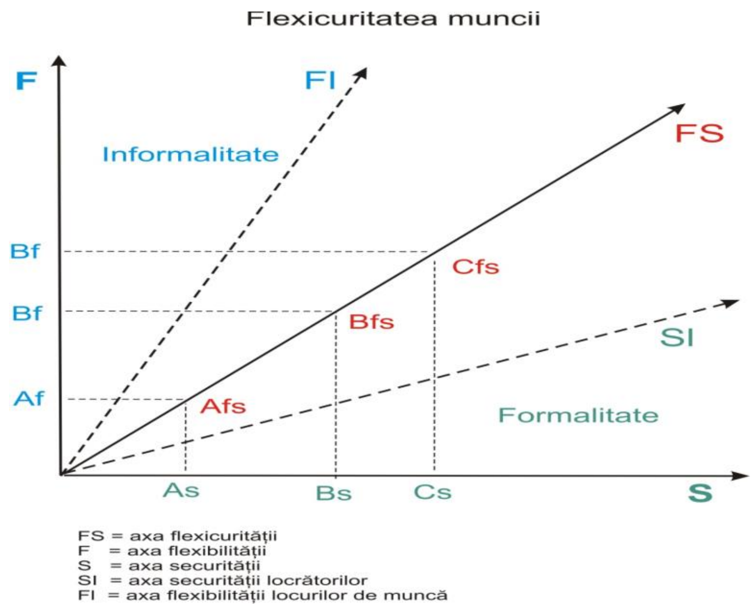

Figure 1
Source: Own Construction

5. Conclusion

The balance between labor flexibility and workers protection can be achieved through the interaction of several factors that influence differently the labor market, according to the type of economy in which it is located (developing or developing economy). These factors are: (De Gobbi, Nesporova, 2005), (De Gobbi, 2006), (Sivananthiran, 2003):

- *An adequate legal framework* (allowing for a rapid adjustment of labor supply to labor demand) - is important particularly in industrialized economies, which are mainly formal and characterized by formal wage earning. In developing economies, the legal framework will be applied by a relatively small part of the economy (given the high degree of informality of these economies);
- *Reducing discrepancies concerning to the protection of workers, who have fix-term labor contracts and those who are long-time employed*. Where the labor market legislation is rigid with regard to the clauses relating to the protection of long-time employed workers, but rather very liberal concerning to the fixed-term labor contracts, a change in labor law is required. This should aim to force employers to pay compensatory amounts when a contract for a specified period stoped, correlated with the period during the worker was employed. Also, concluding fix term labor contract, to be limited to cases where the work done by the worker is temporary (seasonal) and the prohibition concluding fix term labor contract in a consecutive manner, and that this contract becomes automatically a long time contract, if the employment relationship continues after the finish time of the initial contract;
- *Improving employment services*. An example of a scheme for guaranteeing employment among rural workers is India where, in order to combat high unemployment rates in rural areas and to increase rural-urban migration, the Indian authorities have developed a program entitled "Law on Rural Employment Guarantee at National Level" (2005), whereby the Indian government is committed to providing jobs to rural workers for a number of 100 days a year. This program is a social security scheme that primarily aims is to providing a safety net for rural households that do not own agricultural land;
- *Social dialogue.* There is no universally agreed definition of social dialogue. The International Labor Office has adopted a broad definition, which refers to all the practices and traditions found in different countries. This definition of social dialogue refers to all types of negotiations, consultations or simply exchanges of information between representatives of governments, employers and workers, on topics of common interest relating to economic and social policy;
- *An adequate risk management mechanism*. It refers to "instruments" that can be used in developing countries to enhance labor market security. These are called "risk management mechanisms", because allow poor people to better cope with the risk of income loss. They increase income security and job security to a certain extent and at the same time create jobs and help diversify economic activities in rural areas. These instruments are: savings, credit, mutual insurance, public

activities and training courses. Trainings can provide increased security and, at the same time, increase worker flexibility. From a security point of view, training courses improve workers' professional qualifications that are very important for finding a job. Flexibility also increases because increasing employment opportunities allows for better migration from one job to another even from one sector to another where the necessary qualifications are different. Also, trainings does not only provide additional skills for workers but also provides additional theoretical knowledge and information that is common and can be applied in any sector of activity (such as computer skills).

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