Labour Market Developments, Flexibility and the Search for Flexicurity Model in Slovenia

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Abstract

The paper presents labour market developments and labour market reforms in Slovenia in 1996 – 2006. Slovenia recorded rather favourable labour market developments. However, some problems still persist. Adopted labour market reforms were not radical and some of them were adopted rather late. Several indicators of labour market flexibility show rather rigid labour market. Due to high employment protection the share of temporary employment in total employment is big. The weak response of employment and wages to stronger economic activity indicates the rigidity of labour market. Therefore, the search for flexicurity model is a challenge for Slovenia. We stress several obstacles for adoption of Danish flexicurity model in Slovenia and estimate the Slovenian approach towards flexicurity.

Keywords: *labour market reforms, flexicurity, Slovenia*

JEL Classification: J40, J64

Introduction

Slovenia has undergone threefold transition at the early 1990's. The transition in early 1990's dramatically changed the labour market situation in Slovenia. Registered unemployment increased substantially in early 1990's. Since growth recovery in 1993 labour market developments become more stable. However, growth recovery did not improve significantly the labour market situation for several years. Reasons for job-less recovery and unemployment hysteresis are in detail discussed in Kajzer (1997). In 1996 – 2006 period the labour market situation improved. We describe labour market developments in this period in the

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first part of the article. Changes in regulations of labour market are often referred to as labour market reforms. The labour market reforms are often mentioned as a necessary condition for improved labour market performance. The European Commission's catalogue of labour market reforms includes changes in the regulations and policies in the following areas: labour taxation, unemployment benefits, employment protection, active labour market policy, pensions, wage bargaining, organisation of working time, and migration (Arpaia et al., 2005). In the second part of the article we present main labour market reforms in Slovenia in 1996 – 2006. We present changes in employment protection by employment protection legislation index, changes in unemployment benefit duration and key elements of pension reform (adopted in 1999). In the third part we present the responsiveness of employment and wages to macroeconomic shocks as an indicator of labour market flexibility. Discussions on flexicurity model have been raised in EU and Slovenia in recent years. In the fourth chapter we present flexicurity concept and we conclude with an assessment of the (in) appropriateness of the Danish model for Slovenia and estimate the Slovenian approach to flexicurity in recent years.

1. Labour Market Developments in Slovenia in Last Ten Years

The overview of labour market developments in last ten years shows that the labour market situation in Slovenia has improved over the last ten years. Labour market situation in Slovenia is now relatively favourable. Slovenia ranks among the countries with the below average unemployment rate and above average employment rate in EU in 2006. Employment rate rose, unemployment declined in last ten years. However, several problems persist: the percentage of long-term unemployed[1] in total unemployment remains large, as does the proportion of unskilled unemployed people, unemployment among young people and very low employment rate elderly workers. Job-intensity of economic growth in Slovenia in 1995 – 2005 is relatively low.

The employment rate of the population aged 15 – 64 rose by 5.4 percentage points in the last ten years (see Table 1). At the same time, the youth employment rate (age 15 – 24 years) stayed at almost the same level manly to strong increase rate of participation of young people in education. Employment rates of other age groups rose (notably for older people, thanks to the pension reform). Compared with other EU countries, Slovenia still has low employment rates of young people (aged 15 – 24) and older people (aged 55 – 64) in 2006.

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[1] Long-term unemployed persons include those who have been unemployed for one year and more.

T a b l e 1

Main labour market indicators for Slovenia in selected years (in %)*

	1996	2000	2006
Unemployment rate	6.9	6.9	6.0
Youth unemployment rate(15 – 24 years)	17.5	16.8	13.9
Share of long-term unemployed in number of unemployed	50.0	62.6	50.8
Employment rate (15 – 64 years)	61.6	62.9	66.6
Employment rate (15 – 24 years)	35.5	31.2	35.0
Employment rate of elderly (55 – 64 years)	19.1	22.3	32.5

Note: *All data in table are annual averages.

Source: Statistical office of the Republic Slovenia; Eurostat.

Relatively lower employment rates of young population is connected with very high enrolment rates in education of youth population in Slovenia, which is among the highest in EU and substantially above EU-27 average in recent years.[2]

Employment rate of elderly in Slovenia is among the lowest in EU.[3] It is result of 3 factors: (i) still relatively low average retirement age despite pension reform in 2000; (ii) strong early retirement wave in early 1990's when early retirement was supported by government and used for older workers to avoid open unemployment; (iii) structural unemployment, which particularly affects older workers.

Education is also an important underlying factor in the differences in earnings and in employment rates by educational level. Calculations of relative wages depending on the level of attained education show that the relative earnings of high-skilled workers rose in 1998 – 2002 regardless of the sector of employment (Kajzer et al., 2006, pp. 32 – 37). Vodopivec (2004, p. 306) underlines the change in returns to education as the most dramatic change in labour market in the transition in Slovenia. The returns to more educated workers increased monotonically for all groups, with the highest increases belonging to graduates.[4] In 1996 – 2006 the increase of the employment rate of people with a completed tertiary education was the highest; the rate of low-skilled people also rose moderately, while the rate of those with a completed secondary education slightly dropped.

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[2] In 2005 enrolment rate of youth population (20 – 24 years) in education was 43,3% in Slovenia, while the EU-27 average was 27,8%.

[3] In 2006 the employment rate of population aged 55 – 64 years in EU-27 was 43,7%.

[4] According to Vodopivec (2004) the annual returns to education in 2001 totalled 2% for workers who had completed elementary school, 3% for employees with vocational qualifications, 8% for those who had completed secondary education, 15% for employees with an upper-secondary education and 20% for employees with a university degree.

The unemployment rate in 1996 – 2006 declined. The biggest drop of unemployment rate was recorded in youth unemployment rate (15 – 24 years). Unemployment rate in Slovenia was below EU-27 average in whole observed period.

Long-term unemployment rate, an indicator of the problems existing in the labour market and the area of social cohesion, rose in the 1996 – 2000 period, peaked in 2000 (4.1%), and began to decline gradually thereafter. However, it still totalled 2,9% in 2006, only marginally less than in 1996. However, the percentage of long-term unemployed in total number of unemployed remains relatively high.

2. Changes in Labour Market Regulation in Slovenia, 1996 – 2006

The European Commission's catalogue of labour market reforms includes changes in the regulations and policies in the following areas: labour taxation, unemployment benefits, employment protection, active labour market policy, pensions, wage bargaining, organisation of working time, and migration (Arpaia et al., 2005). The discussion below focuses on those areas where major changes were introduced in Slovenia in last ten years. These include changes in labour code with regard to employment protection, changes in the duration of unemployment benefits and the main elements of the pension reform. The labour market reforms were partial, in line with gradualist approach. Changes were often adopted later than in other transition countries.

2.1. Changes in the Regulation of Employment Contracts According to the Employment Protection Legislation Index

One of the significant institutional and structural changes in the labour market is often expressed by the Employment Protection Legislation Index (EPLI). The index was designed by the OECD and allows an international comparison of employment protection. It is a summary of 22 first-level employment legislation indicators which can be grouped into three main areas: (i) the protection of employees against individual dismissals; (ii) the regulation of temporary employment (fixed-term employment and temporary work agencies); and (iii) specific requirements concerning collective dismissals. These 22 indicators are constructed as indices taking values of 0 to 6, while the composite EPLI is a weighted average of the indicators with higher values of the EPLI indicating stricter legislation (OECD, 1999).

Vodopivec et al. (2007) estimated the Slovenian EPLI for the 1991 – 2004. In the early 1990s, the overall value of the index exceeded 4 and did not change

significantly until 1998. The amended Employment and Insurance against Unemployment Act that entered into force in 1998 licensed the operation of temporary work agencies and hence contributed substantially to the reduction of the overall EPLI to 3.1. Changes brought about by the new Employment Relationship Act that entered into force in 2003 caused the total index value to drop further to 2.7. This law underpinned the changes leading towards greater flexibility in the field of employment protection of workers with regular contracts, where the estimated index fell from 4.0 to 2.7 thanks to shorter notice periods and lower levels of severance pay. The rigidity in regulations about collective dismissals also decreased. On the other hand, changes in the area of fixed-term contracts resulted in their higher rigidity due to additional restrictions introduced in this field. Because there have not been any changes in employment protection in Slovenia since 2003, we can assume that EPLI in 2006 was the same as in 2004.

T a b l e 2

Employment Protection Legislation Index (EPLI) in Selected Years in Slovenia

	1995	1998	2003	2004
Employment Protection Legislation Index (overall)	4.1	3.1	2.7	2.7
(a) Regular contracts	4.0	4.0	2.7	2.7
Procedure	5.0	5.0	3.0	3.0
Notice and severance pay	3.1	3.1	1.8	1.8
Difficulty of dismissal	4.0	4.0	3.3	3.3
(b) Temporary contracts	3.8	1.3	2.0	2.0
Fixed-term contracts	2.0	2.0	2.3	2.3
Temporary work agency employment	5.5	0.5	1.8	1.8
(c) Collective dismissals	5.3	5.3	4.8	4.8

Source of data: Vodopivec et al. (2007)

International comparison of EPLI shows that Slovenia's EPLI is higher than that in the Czech Republic (1.9), Hungary (1.7) and Poland (2.1) (OECD, 2004). The biggest deviation of Slovenia's EPLI strictness appears in the regulation of collective dismissals.

2.2. Changes in the Duration and Level of Unemployment Benefits

Long potential duration of unemployment benefits might reduce job-search intensity of the unemployed person. A potentially long duration of unemployment benefits does not stimulate the unemployed to seek a job and to start working as soon as possible. An activating employment policy therefore plays a cru-

cial role here. Some studies find a share increase in exit rate out of unemployment just before unemployment benefit expires.[5]

The amended Slovenian Employment and Insurance against Unemployment Act, adopted at the end of 1998, cut the potential period of entitlement to unemployment benefits for some groups of the unemployed. Van Ours and Vodopivec (2004) exploit this "natural experiment" to find that reduction of potential benefit duration had a positive effect on exit rate out of employment.

Van Ours and Vodopivec (2004) estimated the probability that an unemployed person would find work before and after the amended duration of the unemployment benefit spells enforced in 1998. The results show that a shorter duration of receiving unemployment benefits significantly increased the probability that a person would find work in a given period of time. For example, for unemployed men the overall probability to leave unemployment within 6 months was 45.8% before the law was amended and 51% afterwards, while the corresponding probability for unemployed women rose from 35.8% to 42%.

2.3. Key Elements of the Pension Reform

The pension reform significantly affected the exit rate from the labour market and consequently the employment rate of the elderly and therefore we will present its main features. The reform of the Slovenian pension system was enacted at the end of 1999 and became applicable in 2000.

In compulsory insurance, the conditions for retirement were tightened. The full retirement age for women was raised and the required insurance period prolonged. With a minimum of 20 years of paid insurance, men can now retire at the age of 63 and women at the age of 61 in Slovenia. The minimum retirement age was raised from 53 to 58 years by the reform. The new retirement criteria are being applied gradually. Once the criteria for retirement are fulfilled, staying active is rewarded[6] while early retirement results in lower pensions.

The average age of new recipients of old-age pensions rose by 2 years and 10 months for men and by 3 years and 4 month for women in the 1996 – 2006. The rising of the retirement age was sped up strongly by the enforcement of the pension reform in 2000.

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[5] Carlin, Edin, Harkman and Holmlund (1996) find peaks for Sweden. Roed and Zhang (2003) find end-of benefits spikes for Norway.

[6] Staying active beyond the full retirement age is rewarded as follows: once a person reaches the age of 63 (men) / 61 (women), the pension is raised by 3.6% for the first year of their staying active beyond this age, by 2.4% for the second year and by 1.2% for the third year. The accrual base is raised by a further 1.5% each year.

2.4. Labour Market Reforms Implemented in 2006

In 2006 some additional labour market reforms had been implemented. Some changes were introduced in the field of eligibility criteria for unemployment benefits. Stricter rules for unemployed were introduced regarding their obligations: unemployed persons are obliged to accept the job which is 1 level below his/her education level after 3 moth of unemployment, after six months of unemployment he/she has to accept offered employment for which is required for 2 levels lower educational level than the unemployed person has. Unemployment assistance (UA), which was means-tested and granted to unemployed after expiration of unemployment benefit, was abolished as the special right from unemployment insurance. Instead of UA unemployed person can get means-tested social assistance at Centre for Social Work (CSW) and not at the public employment service as it was the case of unemployment assistance. By this change the decision process become more rational and appropriate. Centre for Social Work already decide on social assistance defined in Social protection Act and there is no difference between social assistance and unemployment assistance anymore (standardization and simplification).

An overview of adopted reforms in last ten years reveals a very gradualist approach to reforms in Slovenia. Especially changes in employment protection have been adopted rather late. This might contribute to the fact that labour market flexibility in Slovenia remains the problem, which we will deal with in next section.

3. Labour Market Flexibility in Slovenia

Due to the very broad conception of labour market flexibility it is practically impossible to define a single criterion of labour market flexibility. Discussions about labour market flexibility are therefore usually limited to one of its components and the application of partial criteria. The most commonly used partial criterion used is the share of temporary employment in the total number of employees and the percentage of part-time employment in the total number of employees. The Slovenia has relatively high share of temporary employment[7] in total employment and very low share of part-time employment[8] in total employment.

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[7] The percentage of temporary employment in the age group 15 – 64 in Slovenia (17.9%) was above the EU-27 average(14.4%) in the second quarter of 2006. Slovenia records an extremely high extent of temporary employment among the young (aged 15 to 24), which was 63.8% in the second quarter of 2006, while EU-27 average was 40.8%.

[8] In the second quarter of 2006, the share of part-time employment in the 25 to 49 age group is well below the EU-27 average. The share of part-time employment in total employment (popula-

Some definitions of labour market flexibility regard the regulation of work contracts as one of the main reasons for labour market inflexibility. Therefore, the EPLI is also used as a measure of labour market flexibility. Compared to other transition countries Slovenia has rather high employment protection.[9]

In addition to simple measures of labour market flexibility such as the incidence of part-time and temporary jobs, we also estimate flexibility using econometric estimates of the responsiveness of employment and wages to macroeconomic shocks.

3.1. The Responsiveness of Employment and Wages to Macroeconomic Shocks

In this part of the paper we try to answer the question in what way the employment and wages in Slovenia respond to output shocks.[10] Since all variables in the model are non-stationary, the cointegrated vector autoregressive model (CVAR) with deterministic variables is adopted as a statistical model for subsequent analysis. Given a set of K variables $y_t = (y_{1t},...,y_{Kt})'$ we can write the CVAR as

$$\Delta y_t = \Pi y_{t-1} + \sum_{j=1}^{p-1} \Gamma_j \Delta y_{t-j} + \Phi D_t + u_t \tag{1}$$

where $u_t = (u_{1t},...,u_{Kt})'$ is an unobservable Gaussian zero-mean independent white-noise process with time-invariant positive definite covariance matrix $E(u_t u_t') = \Sigma_u$. D_t contains deterministic terms, i.e. centered seasonal dummies and a constant, which cumulates to a linear trend in levels of variables. This captures a pronounced trending and seasonal behavior of our data. The term Πy_{t-1} contains cointegration relations and represents the long-run part of the process.[11] Matrices Γ_i are referred to as short-run parameters.

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tion aged 15 – 64 years) was 10.9% in Slovenia, while the average in EU-15 was 21.6% and in EU-27 was 19%.

[9] According to OECD the EPLI for Hungary is 1.7, Poland 2.1 and Czech Republic 1.9, while according to Vodopivec (2005) EPLI for Slovenia is 2.7.

[10] The analysis was carried out on quarterly data for the period from 1995q1 to 2007q2. The variables analyzed are GDP in 1995 prices, real gross wages and aggregated employment, all in logarithms. Source of data is Statistical office of the Republic Of Slovenia.

[11] Π has reduced rank, $r < K$, and can be written as a product $\alpha\beta'$, where α and β are $(K \times r)$ matrices with rank r. $\beta' y_{t-1}$ are cointegration relations among the components of y_{t-1}. α is the corresponding loading matrix, which describes the adjustment of endogenous variables to deviations from the long-run relations.

The first stage in empirical modelling involves the estimation of an unrestricted VAR process. Sequential lag elimination tests revealed that inclusion of three lags is sufficient to obtain a model with satisfactory statistical properties. As shown from the first fourth columns in Table 3 the VAR appears to be well specified.[12] In the choice of deterministic terms in the CVAR we allow for an unrestricted constant (that cumulates to a linear trend in levels), but do not allow for a linear trend term in the cointegration relations. By employing Johansen trace test, we choose rank 1[13] and as can be seen from the column (5) also this model appears to be statistically well specified.

T a b l e 3

Specification Tests for the Unrestricted and Cointegrated VAR

	GDP (1)	Employment (2)	Wages (3)	System (4)	System (CVAR) (5)
AR $1-4$ $F(4.29)/F(36.56)$	0.88 (0.49)	1.75 (0.16)	3.98 (0.01)	1.23 (0.24)	1.37 (0.13)
Normality $\chi^2(2)/\chi^2(6)$	0.03 (0.98)	0.39 (0.82)	1.27 (0.53)	1.54 (0.95)	1.58 (0.95)

Corresponding p-values in parentheses.

Source: Author's calculations.

T a b l e 4

Cointegration Vectors and Corresponding Loading Coefficients

	β	$\beta_{restricted}$	α	$\alpha_{restricted}$
Wages	1.00	1.00	–0.03 (0.18)	0.02 (0.19)
Employment	0.64 (0.12)	0.76 (0.01)	–0.26 (0.04)	–0.24 (0.04)
GDP	–0.74 (0.02)	–0.76	0.02 (0.15)	0.02 (0.15)

Standard errors in parentheses.

Source: Author's calculations.

Table 4 contains the estimates of the cointegration vector that comply with basic economic priors. The relation between (logs of) real wages, output and employment is essentially an equilibrium labour demand relation. We can observe that the coefficients of employment and GDP are very close in absolute terms. Indeed, the validity of the restriction that they enter the cointegration relation with equal coefficients of opposite signs is confirmed by a formal likelihood

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[12] There are some signs of residual autocorrelation in the equation of wages, but there is none in the system as a whole. Note, however, that the LM-type test for autocorrelation in cointegrated VARs can have severe size distortions in small samples as ours, which leads to over-rejection of the correct null (see Brüggemann, Lütkepohl and Saikkonen (2006) for a detailed simulation study).

[13] Johansen trace test value for rank 0 is 40.06 with p value 0.002, while the corresponding values for rank 1 are 8.95 and 0.38 respectively.

ratio test ($\chi^2(1) = 0.49$ (0.48)). Moreover, the size of the coefficient is in accordance equilibrium labour shares that derive from a classical model of the production function with constant return to scale. In such a model the equilibrium condition on the labor market can be written as

$$w = (1 - \alpha)\frac{Y}{L}$$

which in log-linear form closely corresponds to our estimates

$$\ln w = 0.76(\ln Y - \ln L)$$

The model (1) is reduced form model, because it does not include instantaneous relations between the endogenous variables y_t. In practice, it is often desirable to model the contemporaneous relations as well and therefore it is useful to consider a structural form

$$A\Delta y_t = \Pi^* y_{t-1} + \sum_{j=1}^{p-1} \Gamma_j^* \Delta y_{t-j} + C^* D_t + v_t, \, v_t = B\varepsilon_t \qquad (2)$$

where v_t is a *(K×1)* zero-mean white-noise process with time-invariant covariance matrix Σ_v, and the matrices Π^*, Γ_j^*, C^* are structural form parameter matrices. The invertible *(K×K)* matrix A allows modelling instantaneous relations among the variables in y_t.

Structural shocks or structural innovations, denoted by ε_t, are the crucial quantities in the SVECM model. Because the shocks are not directly observed, assumptions are needed to identify them. In our application we are primarily interested in shocks driving the long-run dynamics of GDP. The three-dimensional model contains one cointegration relation, which implies a presence of one transitory and two permanent shocks. This means that, besides zero long-run effect restriction of the transitory shock already imposed by the data, we need one restriction to identify the two permanent shocks. This is obtained by allowing only one permanent shock to have a permanent effect on GDP. This also represents our shock that is the main determinant of output dynamics. In the analysis of the responsiveness of employment and real wages to such a shock is our main indicator of labour market flexibility in Slovenia.

Figure 1 plots the responses of variables to a permanent shock caused by stronger economic activity that significantly raises GDP in the long run. This increase can also be viewed as a permanent increase in aggregate productivity, expected to result in a permanent increase in employment. The analysis again reveals the structural rigidities of the Slovenian labour market since an increase

in economic activity is accompanied by a higher increase in wages while the response of employment is smaller.

Moreover, the responses of wages and employment are both statistically insignificant. This implies that the adjustment to main output fluctuations through the labour market is weak.

F i g u r e 1
Responses of Wages and Employment to Permanent Output Shock
(One Unit on the Horizontal Axis Represents a Quarter)
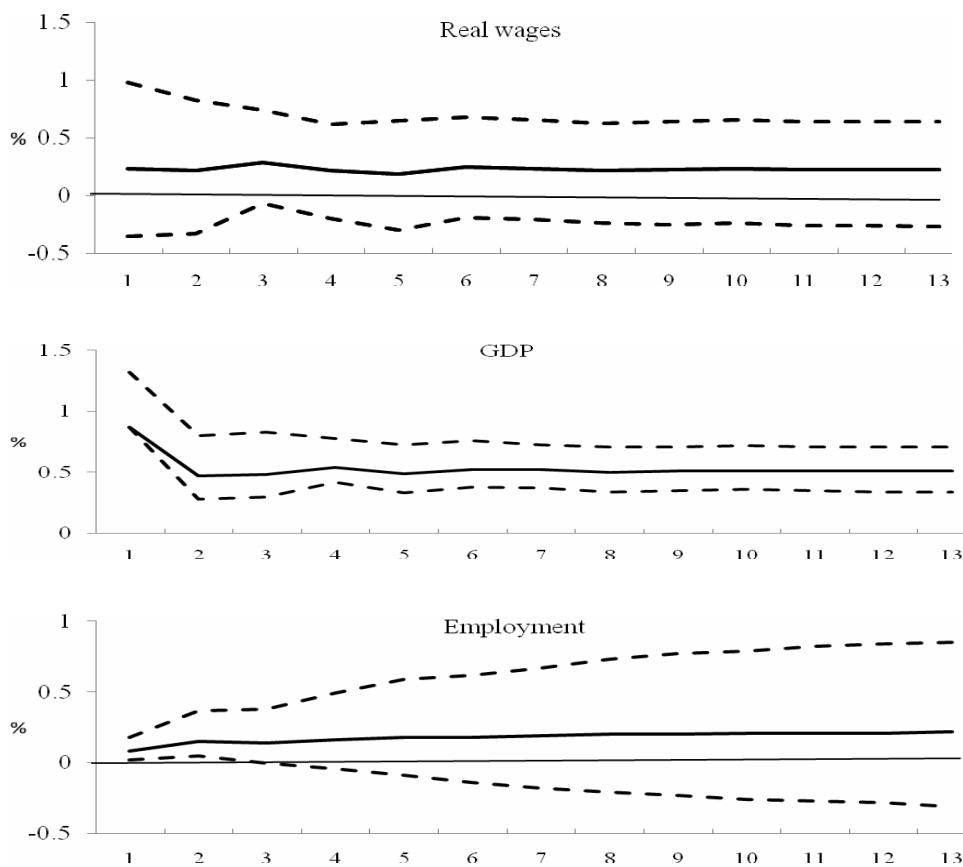
4. The Concept of Flexicurity and Inappropriateness
   of Danish Flexicurity Model for Slovenia

The concept of flexicurity is primarily based on idea that two dimensions of flexibility and security are not contradictory, but mutually supportive in the context of new challenges – such as globalization (EC, 2006, p. 77). According to Wilthagen and Tros (2003, p. 8) the concept of flexicurity have Dutch origins.

Wilthagen and Tros (ibidem, p. 4) define flexicurity as a policy strategy that that attempts to enhance flexibility of labour market, the work organization and labour relation on the one hand, and enhance security – employment security and social security – notably for weaker groups in and outside labour market on the other hand.

Despite its Dutch origins, the most "famous" flexicurity model is Danish flexicurity model. It combines: (i) high external numerical flexibility due to low employment protection, (ii) high levels of income security and (iii) high level of employment security. Due to Danish "miracle", the Danish flexicurity model is often considered as a benchmark model. However, the idea has spread all over the Europe in recent years. The EU Employment guidelines for 2003 recommend balance between security and flexibility, The EU Integrated guidelines 2005 – 2008 encourage countries to promote flexibility combined with employment security.

The flexicurity debate in European Union resulted in definition of integrated flexicurity approach. The rationale for the approach is the need to achieve the objectives of Lisbon strategy, in particular more and better jobs. The Commission have identified that flexicurity policies can be designed and implemented across four policy components. (i) Flexible and reliable contractual arrangements through modern labour laws, collective agreements and work organisation; (ii) Comprehensive lifelong learning strategies to ensure the continual adaptability and employability of workers, particularly the most vulnerable; (iii) Effective active labour market policies that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs; (iv) Modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility (EC, 2007).

Since Danish flexicurity model is often mentioned in debate about the flexicurity in Slovenia, we will try to point out some obstacles for imitation of Danish flexicurity model in Slovenia.

There are at least 5 obstacles that Slovenia cannot copy Danish model: (i) differences in social worth; (ii) lack of trust between social partners and lack of tradition of agreements between partners; (iii) the Stability and growth pact rules on public balance; (iv) differences in the level of economic development; (v) differences in type of welfare state. If we take into account public finance situation, the goal of Slovenia government to decrease the share of general government expenditure in GDP and Stability and growth pact rules, we can say that there is almost no room for substantial increase of public expenditure on social security in Slovenia.

In considering the path towards flexicurity model in particular country public finance situation and the level of economic development should also be taken into account. In discussions about introducing Danish flexicurity model in Slovenia, we have to be aware of few important differences: (i) the difference in the level of economic development: in 2006 Denmark had 29.600 GDP per capita in purchasing power standards (PPS), while Slovenia had 20.700 GDP per capita in PPS; (ii) the difference in the level of expenditure on social security: Denmark has the highest share of expenditure on social security[14] in EU with 30.1% of GDP in 2005, while Slovenia spent 23.4% of its GDP in 2005; (iii) difference in public balance – in 2000 – 2006 period Denmark manage to increase general government surplus from 2.2% of GDP in 2000 to 4.3% of GDP in 2006, while Slovenia manage to decrease general government deficit from 3.8% of GDP in 2000 to 1.2% of GDP in 2006; (iv) Slovenia spends substantially less money on active labour market policy compared to Demark. In 2004 Denmark spent 1.83% of GDP on active labour market programmes, while Slovenia spent around 0.35% of GDP.

Slovenia should build its own flexicurity model, which will fit our culture and tradition. In order to increase flexibility, ensure security and cope with the aging population should pay more attention to measures, which will increase life-long learning among low-skilled and older population.

Conclusion

As we show in chapter 1 the labour market situation in Slovenia is rather favourable: employment rate is above EU average; unemployment rate is below the EU average years. Some problems in labour market still persist: high share of long-term unemployed, high youth unemployment and low employment rate of elderly workers.

An overview of adopted reforms in last ten years in chapter 2 reveals a very gradualist approach to reforms in Slovenia. Several labour market reforms were adopted rather late and therefore the responsiveness of employment and wages to changes in economic activity is rather weak. Slovenian labour market is rather rigid. The high share of temporary employment is closely linked to the relatively high employment protection, which was not significantly lowered till 2003, and student work among youth population.

We argue that Danish flexicurity model is not appropriate for Slovenia for several reasons: tradition, culture, level of development, public finance situation.

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[14] According to European System of integrated Social protection Statistics (ESSPROS) data.

Slovenia should build its own integrated flexicurity approach based on 4 policy components. Philips and Eamets (2007) cluster analysis of flexicurity models ranks Slovenia in the group of new member states from central Europe, where labour market adaptability is rather low. Therefore, flexicurity approach is a big challenge since integrated approach has been developed yet. Recent changes of labour code were mainly targeted to enable flexible contractual arrangements. However, the biggest challenge of flexicurity remain: efficient activating active labour market and effective operational program for life-long learning strategy, which would tackle the problem of low participation of older and unskilled people in life-long learning programmes.

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