The Nordic labour markets and the concept of flexicurity

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1. Similarities of the Nordic countries

The Nordic countries1 have a long shared history and have experienced similar social and economic development. The most common feature of their systems is a well-developed welfare state characterised by its universalism (meaning that all citizens are entitled to basic social benefits), high social spending, high taxes and a large public sector.

The Nordic countries are currently performing relatively well and, according to the World Economic Forum, are among the five most competitive countries in the world.[1] They have succeeded in achieving a high employment rate and fulfil, or are close to fulfilling, the Lisbon goal of an overall employment rate of 70%[2]

Employment policies lie at the heart of their labour-market policy. One important instrument for achieving full employment is the Active Labour Market Programmes (ALMP), which were established in Sweden as early as the 1960's. In all the Nordic countries, the social partners have played an influential role in this process (it is noteworthy that around eight out of ten workers are members of a trade union). The ALMP serve a two-fold purpose: to upgrade the skills of the unemployed to avoid bottlenecks in the labour market, and to encourage the unemployed to remain active and search for jobs. Ultimately, the aim of the system is to prevent people from joining the ranks of the long-term unemployed. If a person is out of work for more than a year, his or her chances of getting a job decrease, and there is a risk of social exclusion. The social protection system in the Nordic countries, in particular the Danish flexicurity system, only pays off when it is associated with effective ALMP. [3]

The Nordic countries also put a great deal of emphasis on adult education and continuing training. Close to 20% of all adults (those aged between 25 and 65) participate in some kind of adult education every year, compared with an average for the EU as a whole of around 8%. Only the UK has a higher rate of participation. [4]

The combination of a high level of social security, an active labour-market policy and the important role played by the social partners in all the Nordic countries has formed the basis for their being awarded the highest economic security rankings in the EU.

This is confirmed by the so-called “economic security index” created by the International Labour Organisation (ILO). This index covers seven different aspects of security, such as labour-market security (the availability of adequate employment opportunities); representation security (the protection of collective voices in the labour market) and income security (the protection of income, through replacement benefits and other measures which reduce income inequality). The Nordic countries rank among the highest on virtually every indicator, and the overall conclusion of the study is that there is no mismatch between a relatively high level of social security and a high employment rate. [5]

2. The special case of Denmark – the concept of flexicurity

As already outlined, there are many similarities between the Nordic welfare systems. However, close analysis also reveals some significant differences.

Looking specifically at the organisation of the labour market, it is clear that the Nordic countries cannot be described as having one system. Each country has its own particular way of organising its labour market according to national traditions, the structure of its businesses etc. The rules governing the recruitment and dismissal of workers are, for instance, very different in Sweden from those in Denmark. The Swedish system follows the principle of “last in, first out”, whereas the Danish system is much more flexible. The following section looks in more detail at the Danish system.

The Danish labour market is extremely dynamic, with a high turnover of jobs – around 30% of the workforce change jobs each year, corresponding to 700,000 employees. [6] However, it costs workers virtually nothing to change jobs, as they do not lose any rights, such as their entitlement to paid holidays, pensions etc., and for companies, it is relatively easy to dismiss employees thanks to procedures regarding notification etc., which are very flexible.

As a consequence, average job tenure in Denmark is among the lowest in the EU (see figure 1 overleaf).

The high turnover yields many job openings, making it easier for unemployed, new entrants to the labour market and those already in work to find a new job. High mobility does not necessarily lead to lower unemployment, but rather to shorter spells of unemployment. [7]

Many Danes experience a period of unemployment during their working lives, but fewer end up in the ranks of the long-term unemployed than in other OECD countries. In Denmark, less than 25% of those out of work have been unemployed for more than 12 months, compared with one-third across the OECD as a whole. In the EU-15, more than 40% of those out of work are long-term unemployed. Youth unemployment in Denmark is also amongst the lowest in the EU. [8]

This dynamic pattern stems from a system dating back more than 100 years. It is based on three pillars; namely, a combination of flexible regulations based on agreements between the social partners; a well-developed social security system for the unemployed; and an active labour-market policy aiming at training those out of work and giving them new qualifications. This combination is referred to as “flexicurity”.

The Danish labour market is thus a hybrid of different models. On the one hand, it resembles the other Nordic models, with their high level of social security; but, on the other, it resembles the Anglo-Saxon model, with its high degree of flexibility.

The role of the social partners

There is a clear division of responsibility between the government and the social partners in relation to labour-market policy.

Working conditions are primarily regulated through collective agreements concluded by the two sides of industry, at industry or branch level. These agreements are, to a large extent, framework accords which allow for flexibility at the company level and for specific local requirements to be taken into account. They cover around 85% of all employees and include regulations governing wages, pensions, working time, redundancies and various pay arrangements for employees during periods of illness, maternity/paternity leave etc.

Legislation covers only specific topics such as holiday entitlement, health and safety, equal pay and equal treatment. Most of this legislation originates from the EU system, and the social partners implement the EU directives themselves. For those not covered by collective agreements, the agreements reached on EU directives are often applied without any changes being made by the government.

Over the last 20 years, the social partners have decentralised the bargaining process with the aim of increasing flexibility, especially with regard to wage-setting and working hours. The decentralisation process is supported by a 50-year-old agreement between the social partners known as the “Cooperation Agreement”. This lays down the conditions for discussions on all relevant issues between the management and employees in the workplace. It reflects the general respect and trust between the two sides of industry. It also reflects the high degree of responsibility placed on the social partners to try to find constructive solutions to problems which might otherwise turn into labour disputes.

Another characteristic of the Danish system is the general "peace obligation". This means that, in the periods between the renewal of the collective agreements, it is effectively illegal for the workers to strike, although they retain the right to strike if the social partners cannot agree on renewing the collective agreements. To deal with any labour disputes which may occur, an effective judicial system has been created to find quick solutions to problems. There is also a built-in mechanism for avoiding conflicts. For example, in the DA/LO-area – the part of the labour market covered by collective agreements between the DA and LO, which corresponds to approximately 45% of employees in the private sector – the social partners settle more than 85% of all cases involving legal action by employers themselves.

The decentralisation process means that around 85% of workers in the DA/LO area negotiate their wages at company level and only 15% have all of their wages negotiated at the central level (i.e. between the various branch organisations which are members of DA and their trade union counterparts). For 65% of workers, only a minimum wage is negotiated at the central level and, for 20% of workers, there is no minimum wage rate at all (see figure 2).

The social partners have agreed that the local partners at the company level can organise working hours without interference from the main organisations. This flexibility makes it possible to vary the weekly hours of work to allow for fluctuations in production over the year. As a result, the reference period (over which employees must work an average of 37 hours a week) has been gradually increased. Since the collective agreements were last renewed in 2004, only 2% of employees in the DA/LO area have had no flexibility with regard to weekly working hours and more than three-quarters can vary their weekly working hours over a full year (see figure 3).

The role of the political system

The flexible agreements concluded by the social partners are supported by a public system which combines a relatively-high level of unemployment benefits with an active labour-market policy.

Those out of work who have been members of voluntary, and subsidised, schemes of unemployment insurance can, if they fulfil certain conditions, get unemployment benefits for up to four years. For workers at the bottom end of the income scale, the replacement rate (i.e. the level of unemployment benefits relative to their previous income) is around 90%, but there are large differences in the level of compensation according to the individual's previous income.

More than three-quarters of the workforce are covered by unemployment insurance and the remaining quarter by social assistance schemes at a lower rate. The generous level of unemployment benefit is, in the short term, one of the factors which give Denmark its flexible labour market, because they make it relatively easy for employers to dismiss workers and virtually cost-free for employees to change jobs. A high level of compensation also engenders a feeling of security and enables people to leave their jobs in order to search for new, and perhaps better, ones.

Active labour market policy

The concept of “activating” the unemployed counterbalances the generosity of the social security system. With the labour market reforms of the 1990s in particular, there was a shift towards a more active labour-market policy, with the focus on giving the unemployed the skills and qualifications to equip them for new job opportunities while at the same time strengthening their rights to unemployment benefit, coupled with, for example, an obligation to be available for work. These labour-market reforms were implemented in cooperation with the social partners.

The most recent labour-market reforms have focused on further reducing the length of time for which the unemployed receive benefits and increasing the availability and mobility requirements. These reforms have also increased the focus on shorter courses in job-seeking and on clarifying the possibilities available to those out of work, as well as on guidance for the unemployed. [9]

The current rules of the active labour-market policy are as follows. The unemployed benefit from an individualised programme of contacts with the Danish employment service, with every third month as a minimum. Within the first year of unemployment, an action plan for each unemployed person has to be drawn up. After the first year, those out of work have to take part in some kind of “activation” programme, and must have a new offer of activation made within six months of their last contact with the labour market.

The interplay between the social partners and the political system

The system created by the social partners is dependent upon shared competences vis-à-vis the political system. If the politicians legislate in areas which are the domain of the social partners, there is a risk of the balance between the social partners being shifted, undermining the fundamental basis of the system.

A couple of examples suffice to illustrate how responsibilities are shared.

With regard to the rules governing the engagement and dismissal of workers, the Danish regulations agreed by the social partners are among the most flexible in the EU. [10] The system is supported by the high level of unemployment benefits and the fact that unions have focused on the development of workers' competences rather than on more formalised job security. The system is not aimed at avoiding unemployment, but rather at getting the unemployed back to work by making them employable. The characteristic of the Danish labour market is thus not one of job security, but rather employment security; i.e. security does not come from having the same job for as long as possible, but rather from being able to qualify progressively for the many new job opportunities which arise in a dynamic labour market.

The collective agreements contribute to an ever-greater extent to the security of workers in those periods of their life when they are temporarily or permanently absent from the labour market. In addition, since the early 1990s, all workers in the DA/LO area have contributed to a pension scheme, with most currently contributing around 9-10% of their earnings to such schemes. In total, more than 90% of all workers are covered by some kind of labour-market pension scheme.

3. The challenges facing the system

Like the rest of Europe, Denmark faces two major challenges in the years ahead: the ageing of the population and globalisation. Both demand - among other things - a flexible labour market with a high rate of participation and with a highly qualified labour force. The flexible Danish labour market, combined with its social security system, is an advantage in this context.

Studies show that Denmark is relatively well-prepared for globalisation and has coped well with previous large-scale industrial readjustments such as the outsourcing of the textile industry. From 1975 to 2000, employment in this sector fell by 80%, corresponding to around 50,000 jobs. However, around two-thirds of the workers managed to find new jobs within a year and only one in six were unemployed or in activation a year later. [11] Studies show that while in the short run, outsourcing is causing job losses, in the longer run it creates new jobs and hence boosts economic growth.

This is probably also the reason why most Danes are not afraid of globalisation. According to a survey conducted by Gallup this year, only 4% of Danish workers believe there is "a very large risk" or "a large risk" of their job being outsourced to another country, and a large majority (95%) think there is "little risk" or "no risk" of their job being outsourced. And if they should lose their job, 59% of Danish workers believe that it will be "easy" or "very easy" to find a new job, with only around one quarter thinking it will be "difficult" or "very difficult".

This survey corresponds to the numbers in the "security index" published by the OECD in 2004, in which many Danish workers, when asked: "Do you worry about the possibilities of losing your job?", replied: "I don't worry at all." This is in stark contrast to workers elsewhere, especially in southern Europe, many more of whom answered: "I worry a great deal". Denmark, together with Norway, the Netherlands and the United States, ranked highest in the security index, while workers in Spain, Portugal and France were the most insecure.

The Danish flexicurity system should enable us to deal with the future challenges relatively smoothly, but it has to be coupled with a well-qualified labour force. In this area, the Danish system has so far not been able to deliver. Denmark ranked only 11th in an international comparison of the proportion of people in the labour force with a higher education in 2002. If the number of youngsters obtaining a higher education does not increase, Denmark will fall to 14th place in 2020.[12]

To improve the workforce's qualifications, various measures are needed. These include improving the quality of primary and secondary schools. No other country spends as much as Denmark on its youngest school pupils, but Danish pupils' reading and natural science skills are still below those of their counterparts in several other OECD countries. [13]

It is also necessary to reduce the number of people with no qualifications at all. Around 30% of all Danes aged 30 to 65 have no qualifications, and special initiatives must be launched to reduce this number.

The ageing of the population puts enormous pressure on the labour force and the financing of the welfare state. Fewer and fewer persons in the labour market have to support a larger and larger number of "non-active" people, such as children and the elderly. Even though the participation rate in Denmark is already quite high by international standards, there is still potential for improvement. More than 900,000 people aged 15 to 65 receive some kind of benefit from the public authorities, corresponding to more than 25% of the population. Many of these are not able to work full-time, for example because of health problems, but the failure to integrate refugees and immigrants fully in Denmark is also a factor. Immigrants and refugees have a very low participation rate, especially among women. There is no doubt that the process of integration has to be improved in the future.

Denmark spends more than any other OECD country on active unemployment measures and unemployment benefit14, but the effectiveness of the active labour market policy also has to be improved.

Lastly, the participation rate among 60-65 years old is very low. The question of how to deal with this problem is currently being hotly debated in Denmark.

Endnotes

1. In this article, the Nordic countries refers to Denmark, Finland and Sweden
2. (European Commission & Eurostat, 2004)
3. OECD, 2005
4. European Commission & Eurostat, 2004
5. Watt, 2004
6. Vejrup Hansen, 2000
7. Albæk, 2005
8. Statistics Denmark, Statistikbanken, 2005
9. Bredgaard et al, 2005
10. Anderson et al, 2005
11. Bjerring Olsen et al, 2004; and Ibsen et al, 2005).
12. OECD, 2003 and 2004b
13. DA, 2004
14. OECD, 2005