

FLEXICURITY – DEVELOPING PEOPLE THROUGH JOBS

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Presented as a feature article in the daily newspaper Politiken, 11 February 2006.

The Danish "flexicurity model" has become a topic of discussion amongst Europe's labour market researchers and politicians, and the European Commission has just recommended the model as the way forward to growth and higher employment.

In a globalised world, both businesses and countries are gaining more equal access to raw materials, energy and markets among other things, and the wealth of individual countries will therefore to an increasing degree depend on how good they are at utilising their human resources and developing them through their jobs.

Many countries have acknowledged this, but how do we achieve it? Well, one of the role models being discussed around Europe is in fact the Danish model, which is now being launched under the name "flexicurity".

Flexicurity is based on three cornerstones. The first cornerstone is relatively unrestricted access to appoint, dismiss and to fix wages. The second cornerstone is an economic safety net in the event of unemployment, while the third cornerstone is an active labour market policy which assists the unemployed who are unable to find a new job immediately.

Some people will undoubtedly be surprised that Denmark – with the difficulties that we are experiencing in introducing immigrants into the labour market – could be a role model for the globalised labour markets of the future. Yet Denmark has actually delivered employment results that are the envy of many other countries. Unemployment over the past 10 years has been low, around 3-4% below the EU average. Employees are more satisfied than in other countries and are not afraid of the prospect of their current job coming under threat as a result of the ever increasing globalisation.

The importance that the term 'flexicurity' has now been accorded in the labour market policy debate within the EU is illustrated by the Austrian presidencies decision to put flexicurity on the agenda for an informal meeting of council ministers on 21-22 January. And in its annual report on growth and employment the European Commission has just recommended that the Member States move towards a flexicurity labour market. During the past month, both CNN and Newsweek had reports on the Danish flexicurity model.

Most countries in the EU are experiencing difficulties in getting their labour market to function. France in particular has shown considerable interest in the Danish flexicurity model, as the model is seen as a "third way", where the flexibility that characterises the USA and Great Britain can be combined with the social security system of the northern European countries.

France has just taken a fairly small step in the direction of flexicurity with a proposal that employers be given unrestricted access to dismiss new employees during their first two years of

employment, in return for employees in such jobs being given earlier access to unemployment benefit.

So what is the secret behind the model? Why have we in Denmark had such relative success despite our short working hours, long holidays and high salaries?

We believe that a major reason is that we have created a labour market in which the participants in the labour market, regardless of whether they are a carpenter, an unskilled worker or an academic find a place for themselves where they are of most use.

A dynamic labour market has been created with a high job turnover, where employees feel their job situations are secure, not as a result of a ban on redundancies but because it is relatively easy to get another job, simply because of the dynamics of the labour market and because employers are not afraid to take on new staff as they know that they will be able to lay them off if they no longer need them.

Where others are talking about job security, in Denmark we are talking about employment security.

We have created a labour market where the employee has a clear interest in presenting good qualifications and skills, and where the best way to preserve one's value in the labour market is to have a job where one's abilities are recognised, challenged and therefore developed.

Although Danish employees are not protected from redundancy, they do not feel less secure than their colleagues in Europe.

A survey by Eurostat in 2004 shows that Danish employees experience the greatest job security, and a similar survey of job satisfaction carried out by the European Foundation for the Improvement of Living and Working Conditions in 2004 also placed Danish employees at the top. At the same time the Danish labour market is also one of the most flexible, surpassed only by the USA, Great Britain and Ireland.

The creation of the Danish labour market model has never been a conscious goal, but it has been developed in the wake of our history and opportunities. In the early years of the industrial age a model was developed based on collective agreements between the unions and employers' organisations. A model that was most definitely not the result of mutual admiration.

After a number of tough confrontations the parties agreed to continue the class war using civilised means so that their "war costs" did not become unsustainable for society. And over a period of 100 years the labour market developed a model which in an international context is very flexible.

One of the reasons for this is of course that Denmark has relatively many small businesses, for which comprehensive redundancy rules would be particularly burdensome. Instead, employees protected themselves through collective "help funds", in which the State subsequently became involved as an active partner and which became our current unemployment benefit system.

Employer interests was the reason why we promoted a flexible labour market, but employees learned not only to live with the flexibility, but also to make it an ally for their interests, so that today we have a labour market which is considered by both employees and employers to be more attractive and secure than that in other countries.

Such a labour market influences the behaviour of both employees and employers. It could be said that we now have employees who are both more demanding and more giving. They are demanding in the sense that many employees are not satisfied with receiving a reasonable salary, but also demand to be allowed to use their skills. They are also giving, because independent and demanding employees are an important part of the driving force for the development that exists within Danish private enterprises.

There are many preconditions for an employee daring to try something new if his or her job is not sufficiently exciting.

Firstly there must be good alternatives, and this is something of which there is plenty when there is good growth in society.

However it is just as important that collective agreements and employment rules do not put obstacles in the way. This is the case in many countries, where employees build up considerable rights during their employment, which they cannot take with them when they move job and would lose if they were to leave their job or be dismissed.

This is the case in Sweden for example, where employers must as a general rule lay off their most recently appointed employees first. This means that employees become increasingly difficult to dismiss the longer they stay with a company.

Employees cannot take this passive security with them if they leave, but must live with the fact that – however good they are – they will be the first to be dismissed because of their low seniority.

Since Sweden introduced this rule, job turnover has been reduced to less than half that in Denmark. Similarly, Sweden has rules concerning longer periods of notice for dismissal, depending on how old you are, which means that employers are not keen on employing older people if more employees are to be hired.

In the southern European countries, the level of protection against dismissal is generally even greater. This has resulted in higher unemployment rates everywhere when the effects of tougher international competition have impacted.

For many years, the system worked well in these countries, but when the various national protection provisions were abolished, the effects of international competition resulted in rapidly increasing unemployment rates, as in Germany and France for example.

Another element that is often ignored in the debate on flexicurity is the importance of the cooperation culture which has been built up within Danish enterprises, and which has for example led to the establishment of the cooperation agreement entered into between the unions and employers' organisations more than 50 years ago. If someone is dissatisfied with something, they can bring the matter up with their employer.

The past 15-20 years have seen a decentralisation in the rules in collective agreements, so that many central matters now are determined within individual enterprises. This applies for example to the setting of salaries, with collective agreements only fixing a minimum level.

The scheduling of working hours has also become much more flexible. The typical collective agreement will no longer specify daily working hours, but will instead define the total number of working hours for a full year. It is then up to the management and employees to decide how the framework should be filled out.

This flexibility does not mean that collective agreements have been diluted. On the contrary, in recent decades new, more socially oriented elements have been added. In the early 1990s, labour market pensions were introduced, and the maternity/paternity fund was introduced through the contractual negotiations in 2004.

It is worth noting that we have set up the labour market pension system so that it does not limit flexibility. Employees keep the money, regardless of whether they stay or go, but this is not the case in every country, where defined benefit schemes require employees to stay until they retire and often have a requirement for many years' service in order to join the pensions system. This encourages the individual to remain in a job once he or she has 'crossed the great divide' in terms of pensions saving, even though that person may not be happy or be fully utilising his or her skills. In the balance between the three cornerstones in flexicurity: an economic safety net in the event of unemployment, flexible appointment and dismissal rules and an active labour market policy, the importance of an active employment policy is often overlooked. However, a sufficiently dynamic balance cannot be created between relatively high benefits and unrestricted employment rules without an effective labour market policy which continually encourages the recipients of welfare benefits to return to the labour market.

A further task of an active employment policy is to make the market for labour visible to the unemployed and to make the unemployed visible to employers who are in need of labour – i.e. to get supply and demand in the market for labour to match as effectively as possible.

An active employment policy should give the unemployed new and relevant qualifications for jobs, but it should also help the long-term sick to return to the labour market.

Collective agreements have become more flexible, and labour market policy has become much more dynamic over the past two decades, creating a far better balance in the Danish model.

This shows that the flexicurity model is not a static model, and the version of the model we lived with during the 1970s was unable to attract positive attention anywhere. On the contrary, we were 'at the edge of the precipice', and this shows that the model is not in itself a miracle cure but must be continually developed in a dynamic interaction between regulation through collective agreement and regulation through law.

The union movement often claims that a precondition for relatively unrestricted access to lay off employees is a good safety net in the form of an unemployment benefit system.

For employers it is important that the benefit system supports the flexibility of the labour market. This requires a suitable balance to be struck to ensure that benefits are not so high that it does not pay to get a job and yet not so low that they cannot cover to a reasonable extent loss of income between jobs.

At the present time the benefit system does not encourage the low-paid to work, whilst benefits are actually relatively low for highly paid workers in comparison with other countries. At the same time, we have a particularly long payment period compared with other countries.

Danish employees have a brighter outlook on the future than workers in other countries, with good reason too. Not because the future will be easy or present no major challenges, but because, compared with so many other countries, we have a solid foundation on which to utilise the most value resources that a country possesses: human resources.