

# Flexicurity in Denmark



introduction to the Danish market model

### Flexicurity creates jobs and growth

In a time where large parts of Europe have been experiencing persistently high unemployment we here in Denmark appear to have discovered an effective, working model that is creating jobs and growth. Over the past 15-20 years political reforms and collective bargaining agreements have paved the way for a structural change that is clearly reflected in developments on the labour market.

### The Model is an inspiration worldwide

It has induced more and more people to turn their eyes to the north in search for an explanation for this remarkable development. Inspiration has even found its way across the Atlantic where traditionally conservatively thinking economists have begun to point to Denmark as a very well-functioning economy. There is now talk of the “Danish model” or more broadly the Flexicurity Model – a model that combines a market economy with the traditional Scandinavian welfare state.

### Resistance to reforms and change

Interest in Flexicurity – a hybrid of the English words flexibility and security – has been aroused not least

by the fact that chronically high unemployment notwithstanding, it has proven difficult to push through labour market reforms in several EU countries, whereas in Denmark such reforms have been on-going – with broad political backing in a spirit of cooperation between the labour and business – remarkable in itself in a European context – and with voters’ backing as well.

### Rapid recon version is necessary

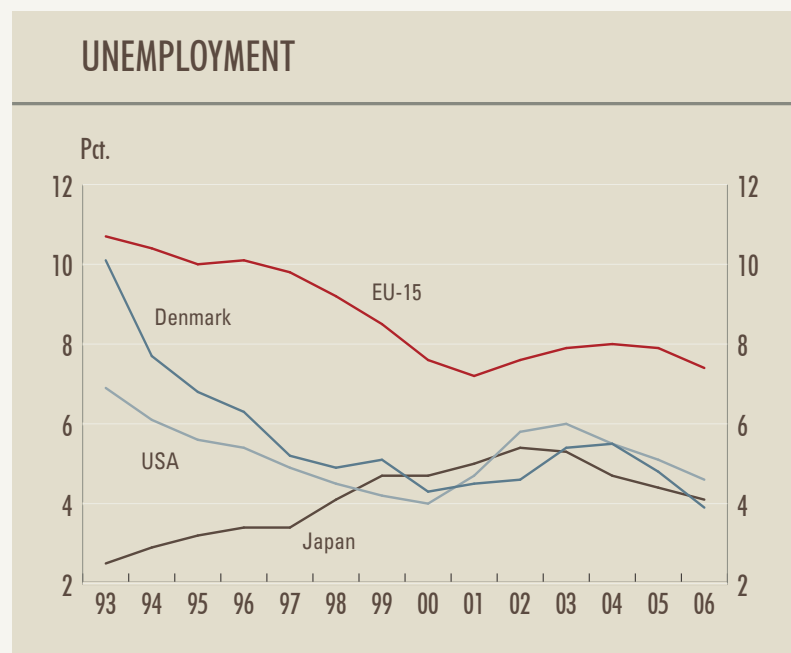
Globalisation has markedly increased the need for flexibility in businesses. The ability to reconvert production quickly gives a major competitive ad-

vantage, especially when a firm’s wage bill and other employee costs are markedly higher than elsewhere on the world market. At the same time, Danish workers entertain high expectations with regard to economic guarantees and job security as they watch traditional job functions disappear.

### Flexicurity enhances a company’s flexibility

The Danish way is a proposal for meeting both these needs, and what has aroused the most international attention is that the Flexicurity-formula enables companies to be flexible without conflicting with the wishes

Figure 1



SOURCE: OECD, Employment Outlook, various years.

of working people for security at the social level.

## Some features of the Danish model

### Flexicurity's three main components

Flexicurity may be described as condition or also as a strategy. The formula for Danish Flexicurity today has *three* main components:

- Flexibility in hiring
- A social welfare system
- An active employment policy

### Easy to hire and fire, easy to get welfare support

It is easy for companies to hire, and also to fire, while work time and wages are decided in the individual company. If a person finds himself or herself jobless, the jobseekers allowance system, with payments very near the minimum wage, is available. In return, an unemployed person must be willing to find a new job and to help that person find the way back to work quickly, the measures provided for by the active employment policy are available; namely, assistance in finding a job, on-the-job work experience, skill upgrading, etc. That, in a nutshell, is

how the three main components of Flexi security come together in a single interlinked system.

### Employment security before job security

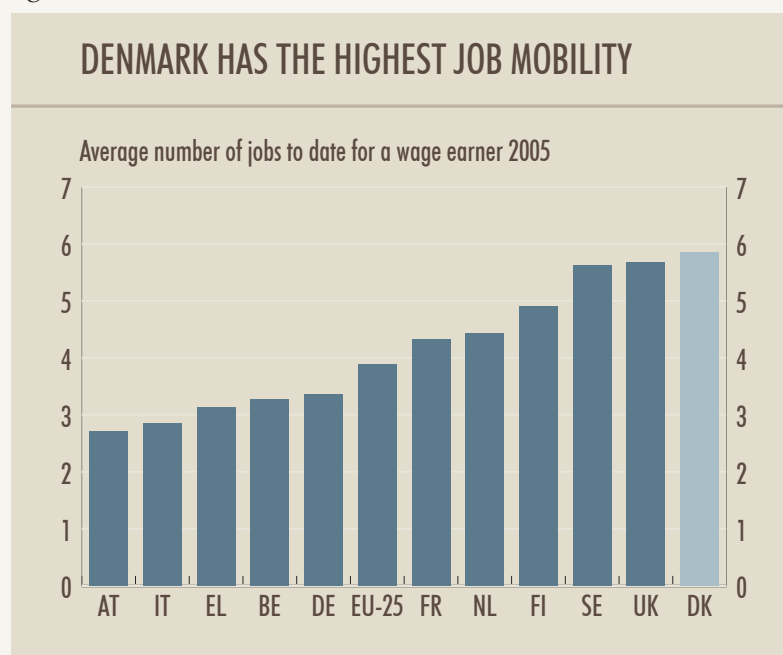
The readjustment of the Danish labour market to this line of thinking has had a number of positive effects: Flexicurity means employment security over job security, and on the Danish labour market workers and employers have come to the mutual understanding that if security in the individual job is non-existent, the best solution is to provide good opportunities for employment.

### The Danish labour market is quite dynamic

Thus, the Flexicurity model goes hand in hand with the quite dynamic Danish labour market and its characteristic high job mobility. Roughly 30 percent, or about 700,000 wage earners, change jobs every year. Danish wage earners have on average had more jobs in the course of their working careers than their counterparts in other EU countries (Cf. Fig. 2).

A major cause of this high mobility is that wage earners encounter practically no set barriers to changing jobs. For example no one loses his or her entitlements

Figure 2



SOURCE: Eurostat, *Eurobarometer 2006, Europeans and Mobility*.

to a pension, to earned holiday time, etc. This is not so in many other countries where entitlements are linked to the individual company. This is often the case with pension systems for example.

**Many job openings make it easier to come on to the labour market**

The high job mobility on the Danish labour market creates many job openings, which in turn makes it easier for more vulnerable groups to find a new job. On the other hand, the high rate of job changes means that many persons are hit by unemployment. Lastly, the many job openings are of major significance for youth unemployment as well as long-term unemployment, which are much lower in Denmark than in the rest of the EU (Cf. Fig.3).

**Flexicurity triangle**

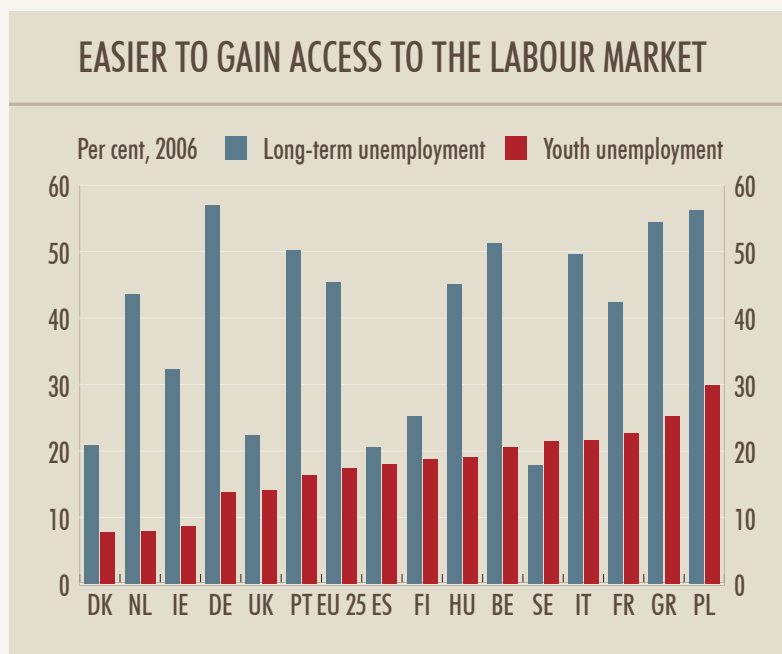
In the following we shall take a closer look at the main features of the three principal components of Flexicurity: flexibility, social welfare, and an active employment policy.

**Flexibility**

**A sense of security makes for flexibility**

In Flexicurity there is no contradiction between flexibility in employment

Figure 3



NOTE. Long-term unemployed is here defined as unemployed for more than one year in percent of all persons employed. The Swedish long-term unemployment figure is from 2004.

SOURCE: Eurostat, Labour Force Survey, harmonised unemployment.

and security of income. On the contrary, flexibility is a requisite, and necessary if there is to be a social welfare net. Thus, it is relatively easy for a firm to hire and fire in Denmark, which means that firms need not be hesitant about expanding their workforce when business is going well. If it is very difficult to reduce staff, firms will think twice about expanding their workforce should the opportunity present itself.

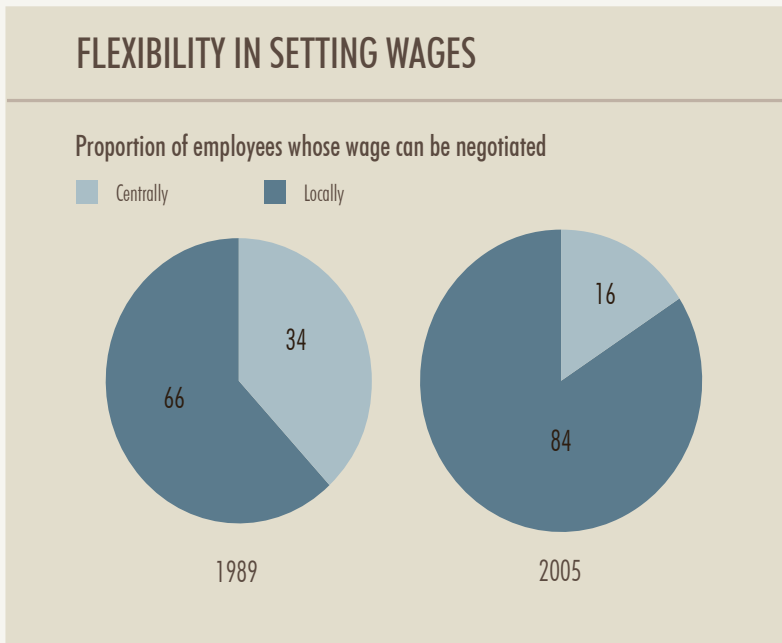
Flexicurity also entails local solutions, where working hours and wages are agreed

locally, and can therefore be flexibly adapted to the individual company's competitive situation. Within the domain of the Danish Confederation of Employers (DA), 98 percent of workers are covered by agreements that have established that the number of hours worked per week can vary as long as the average stays around 37 hours considered over a relatively long period.

**Flexicurity makes for greater flexibility in setting wages**

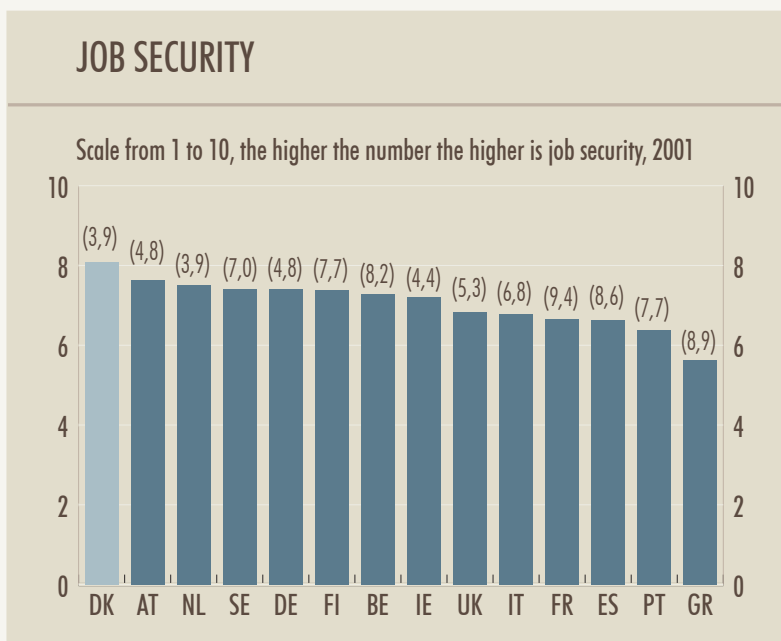
Flexibility in setting wages is also local; the chance of

Figure 4



NOTE: DA/LO domain.  
SOURCE: DA.

Figure 5



NOTE: The figure in parentheses is the percent unemployment in 2006.  
SOURCE: Centre for European Policy Studies (2004), *A New European Agenda for Labour Mobility*, Report of a CEPS-ECHR Task Force.

finding local solutions is greater and wages are more and more often being set by the individual company (Cf. Fig. 4).

**Danish wage earners feel secure in their jobs**

Flexibility in employment does not create a sense of insecurity among wage earners. On the contrary, Danish wage-earners find that the system is working well, and feel more secure in their jobs than wage earners in other EU countries, despite the fact that Flexicurity does not really give job security, but rather security in employment. Cf. Figure 5).

The dynamic on the Danish market makes it easier for the individual to find just the job that best fits his or her qualifications. This effective use of workers' resources is clearly an advantage to workers as well. Measurements of job satisfaction show that Danish workers top the list compared to the other European countries (Cf. Figure 6).

Figure 6



NOTE: The number of employed who are satisfied or very satisfied with their job.

SOURCE: European Foundation for the Improvement for Living and Working Conditions (2006).

## Security at the social level

### Economic security when one loses job income

Income transfers – from the public purse or from employers – which replace job income if a worker becomes unemployed, becomes ill, goes on maternity leave, etc, helps to prevent people from losing hearth and home if they unexpectedly lose their job or are unable to work for a time.

The jobseekers' allowance system is exclusively for unemployed persons on the

labour market who have taken out unemployment insurance. For the unemployed without unemployment insurance, the social welfare net provides cash assistance. The social welfare net enables the unemployed to concentrate on finding new employment.

### Unemployment insurance funds pay our allowances

Insured unemployed persons, whose unemployment is not of their own making, are entitled to a jobseekers' allowance from the first day they are unemployed, if the unemployed person is regi-

stered with the local job centre and if he or she has been a member of an unemployment insurance fund for at least one year, and has been in full employment for at least 52 weeks of the preceding three years. For part-time employed somewhat different but otherwise parallel rules apply.

### Public income transfers are supplemented in collective bargaining agreements

Income transfers as an allowance for unemployment, illness, and maternity leave are regulated and financed primarily from public funds. In the past 10-15 years collective bargaining agreements have provided for a supplement to income transfers from public funds on a number of points, for instance, wages during illness or during maternity leave, in which cases employers supplement public income transfers for a limited period up to the full wage or a wage ceiling. In addition, since the early nineties the two parties on the labour market have enlarged the pension provision so that the employer now pays 2/3 of the pension provision.

### Dane may receive a jobseekers allowance for four years

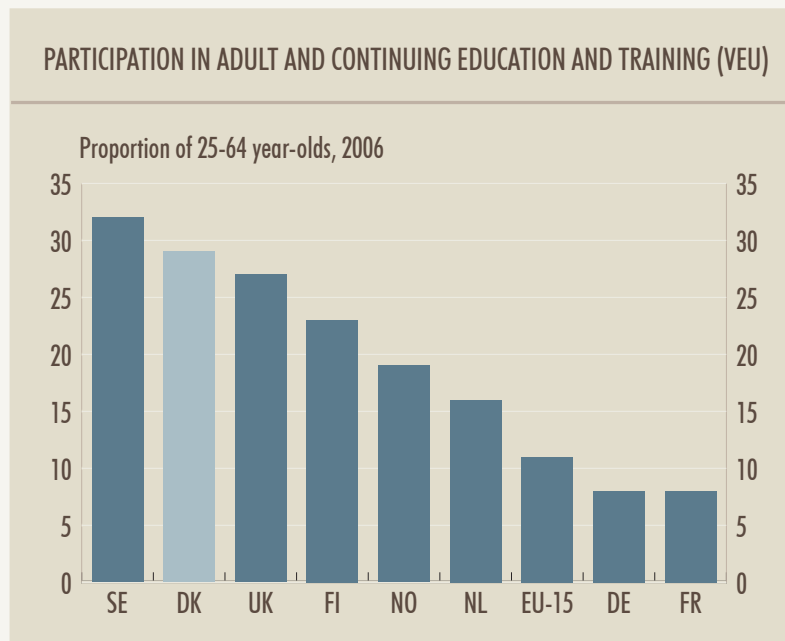
Another special feature of the Danish jobseekers' allowance system is that the benefit period is quite long. In Denmark a person may continue to receive this allowance for up to 48 months, which is one of the longest benefit periods in the entire world. In Finland the maximum period for receiving benefits is 23 months; in Sweden it is ten.

### An active employment policy

#### Everyone must be available

With a fine-mesh social welfare net, it is crucial to the Flexicurity model that all who are able must be available for the labour market and be actively looking for a job. The Danish active employment policy is an instrument for achieving this objective. In its present form Denmark's active employment policy is the product of labour market reforms that began in the nineties. New instruments were introduced in that period and the rules regulating the availability of the unemployed for employment and their obligation to be receptive of employment initiative were made more stringent.

Figure 7



NOTE: The respondents were asked about participation in a training program or study course over a four-week period.

SOURCE: Labour Force Survey (2006), Eurostat.

#### Employment policy should develop skills

The active employment policy is meant also to give all wage earners the opportunity to maintain and broaden their qualifications so that they can be employed in new places. Given the high rate of job switching and the ongoing changes in economic life, it is crucial that workers' skills are in tune with what businesses need.

#### Adult and continuing education is widespread

Denmark has a long tradition of further education and advanced training and both business and labour

are deeply involved. In 2005, better than one in four workers were participating in training or study courses over four-week period (Cf. Figure 7).

Adult and continuing education is offered both privately and in the public system and also by firms themselves internally. Companies spend an estimated ten billion crowns per year on adult and continuing education. In the collective bargaining agreement in spring 2007 it was also agreed that workers over broad areas covered by the Danish Confederation of Employers

(DA) shall be entitled to two weeks further education per year, paid for by the firm but chosen by themselves.

### **Employment policy should bring to light skills...**

The active employment policy also has the function of discovering what jobs are open and what type of unemployed persons are available on the labour market, so that the best match possible can be found between jobs and workers. For instance, this might mean that in periods of economic upswing the focus can be on what types of qualified labour is available from abroad, if there is a labour shortage on the Danish labour market..

### **And support effective job-seeking**

A third function is to support and assist the unemployed in making their job-seeking more efficient. This is a voluntary offer, where the takers are required to participate in course on how to look for work or to search for a particular job. Such incentives can contribute to the formation of a more effective job-seeking strategy as a consequence of the "motivation effect," as it is called, that is, the unemployed will prefer an ordinary job to positive activating measures

since a bite is taken out of their free time in any case.

## **The historical background of Flexicurity**

### **Business and labour have developed the system together**

The Flexicurity formula was not invented by chance. It is a product of more than a hundred years of evolution on the Danish labour market – a development that owed much to the Danish collective bargaining model. Labour and business have together crafted the system over time – for the most part in collective bargaining negotiations but also in negotiations in which the government and other parties have been involved. One example is the tripartite agreement of 2006 on more adult and continuing education, in which the government pledged to find one billion crowns for this purpose if labour and business could also agree to prioritise the project in their collective bargaining negotiations.

### **Combating unemployment is written into the constitution**

Combating unemployment has a central place in economic policy. At the same time it has also been regarded as society's obligation to ensure that economic

unemployment in Danish society never become excessive.

### **The September Compromise laid the foundations**

There is no fundamental political regulation of the labour market in Denmark. Business and labour have together created a place for the labour market. The 1899 September Compromise, in which the key industrial and labour organisations signed the Basic Agreement, marked the start of the endeavour to establish a collective bargaining system in Denmark. The Basic Agreement established the framework within which business and labour negotiated the terms and conditions of wages and employment, and this principle continue to this day.

### **A high level of organization is a Danish trait**

It has been a feature of the Danish labour market that both workers and employers have always been highly organised. This ensures that collective bargaining agreements always have a broad coverage and a high degree of legitimacy.

The collective bargaining system is not only central; it extends down to the very workplace where works councils and shop stewards



negotiate with management over everything from wages to job content.

### **The system has a smooth conflict resolution**

If a disagreement arises over the employment situation between employer and worker it is of crucial importance that a solution that all parties will respect is found quickly and easily. It has often been suggested that the secret behind the success of the Danish labour market is this smoothly functioning system, which labour organisations and employer organizations have built up together.

### **Conflicts are dealt with within the firm**

Labour and management have a long tradition of resolving most disagreements themselves through local negotiations within the firm. More than that, quite many conflicts are prevented and averted by internal works councils set up in firms in the wake of the aforementioned cooperative agreement. With this conflict-solution system disagreements big and small can be resolved within a firm with no outside intervention.

### **Working together with politicians promotes mutual understanding**

The broad and thorough coverage afforded by collective agreements makes mutual understanding among those responsible for the provisions of an agreement (employee and employer representatives) and those responsible for formulating the laws (politicians) crucial. A key component in the Danish Flexicurity model is that employers and workers are in constant dialogue with the political system whenever new labour legislation is needed. This enables both to be responsive to signals coming from the society at large which may then be dealt with in negotiations that may then make new and perhaps inflexible legislation.

### **Flexicurity's challenges**

#### **Flexicurity is not perfect**

With such good results, and so much positive attention, one is tempted to believe that Flexicurity was perfect and has fully evolved as a labour market model. But it is not so simple.

#### **950.000 are outside the labour market**

Even though employment and participation in economic life is high in Denmark there are still 950.000 per-

sons of working age who are outside the labour market. A very large portion of these are at the margins of the labour market and there are numerous signs that the social welfare net can be an impediment to getting a job. If it is hard to see the benefit getting a job will bring, a decline in the job supply is the obvious consequence.

#### **Many are unable to work, some do not want to work**

Tackling some persons' unwillingness to take a job is one of the tasks the active employment policy is meant to address. But – and there are a number examples that will illustrate this – the employment system has not been fully able to meet the demand of businesses for workers, despite the fact that unemployed persons were ready and waiting to step on to the labour market.

#### **Low-paid jobs are disappearing because of high transfer incomers**

The relatively high Danish benefit levels also mean that there are quite a number of jobs that are simply not to be found on the Danish labour market. Jobs paid at levels near the bottom of public income transfers are very difficult to fill if they can be filled at all. This is especially problematic for

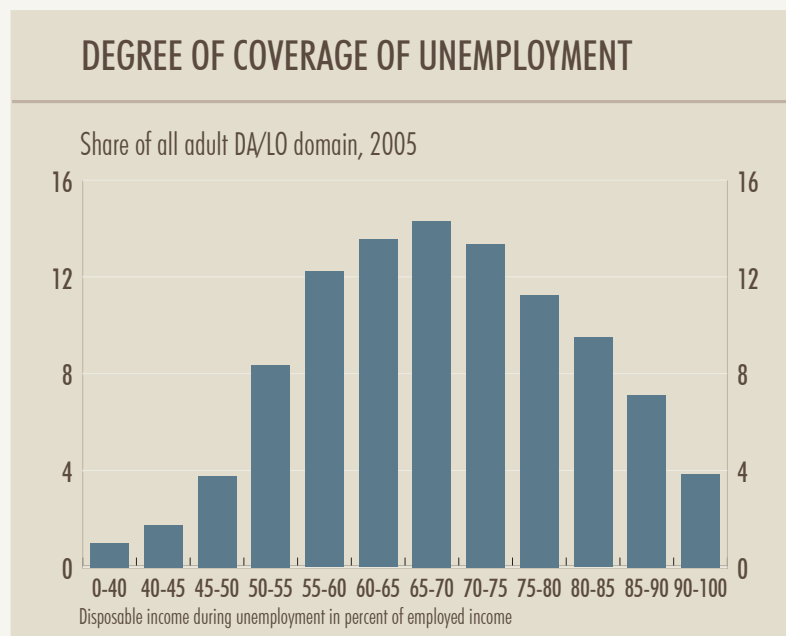
the large group of refugees and immigrants who are outside the workforce. Many of these have no skills that can sustain a wage at the same level or just above the transfer income.

### Daily allowance is too low for many age earners

A third challenge to Flexicurity is that the unemployment insurance fund system is no longer an insurance system. A good eight out of ten persons who receive an individually adjusted allowance are getting the highest allowance permitted. What is more, there is a large group of wage-earners for whom cash assistance is just as attractive as a jobseekers allowance, and there is no quota. Conversely, for a large portion of the core workforce, the allowance does not adequately reflect the loss of income resulting from loss of one's job (Cf. Figure 8).

On the other side of the ledger, the daily allowance may be received for up to four years in Denmark. This is a relatively long time compared with other countries. For many there is a need for an insurance system that will give higher unemployment coverage for a shorter period.

Figure 8



SOURCE: DA, Structural statistics, The Danish Insurance association, Social benefits, as well as or own calculations.

### Flexibility in the public sector is necessary

Fourth, the success of the Flexicurity-model is dependent on the ability of other services that are available to meet new needs. As the private sectors moves toward increasingly more flexible forms of employment and production it is essential that the services made available by the public sector keep in step. For example, it is an impediment to flexible production when day-care institutions do not extend their opening hours so that wage earners working on a flexible regime have access to more flexible child care. It is likewise inflexible if

a doctor's opening hours are wholly outside general working hours.

### The Danish employment system is the most costly in the OECD

Lastly, the economy is of major importance to the Flexicurity model. It is expensive to pay benefits, and it is expensive to have a broad choice of labour market policy measures such as active incentives for the training or retraining of the unemployed. Despite sweeping new restrictions placed on the jobseekers allowance during the 1990's part of the more general labour market reforms in-

troduced during that same period the Danish system is still relatively costly.

### **Flexicurity is forward-looking**

#### **Pioneer of tomorrow's day?**

Does the Flexicurity model have a secure future? There is no guarantee that even if the Danish labour market had flexible rules for dismissals, and high benefit levels in the 1980's the Flexicurity mode in place at the time did not prevent a very high unemployment rate and a weak Danish economy.

#### **Other models have been successful**

It is worth mentioning that countries such as Ireland and Great Britain, which provide only very modest benefits to the unemployed, also reduced unemployment radically in the nineties.

#### **Flexicurity arouses interest**

The Flexicurity formula is at present playing a major role in the European debate and in efforts in the EU to make the European labour markets function better, i.e., to ensure a higher employment rate, a lower unemployment rate, and greater growth. The especially Danish institutions with its two strong partners facing

off on the labour market cannot be copied part and parcel. But the underlying thinking behind Flexicurity is arousing considerable interest. Many European countries, for example, have tried to create job security by making it difficult if not impossible to dismiss workers. The result has been that business have been reluctant<sup>2</sup> to hire new staff for fear that they would not be able to get rid of them should they no longer be needed. The result in such countries has been a high unemployment rates and, not least, high youth unemployment.

#### **Dynamic model is an advantage in globalisation**

The Danish Flexicurity formula is evidence that unemployment can be reduced with a model that gives both flexibility to businesses and income security to wage-earners. But the Danish labour market model is in constant change – which is also urgently necessary, since the challenges constantly are constantly changing their character as well. Global competition is becoming ever more bitter: Yesterdays winners often become tomorrow's losers, and valuable skills within one sector can become useless in just a short time.

#### **The population makes demands on the labour market**

The population at large is constantly making new demands on the labour market as well. The demand for more leisure time, more consideration to families with children or some other demand are of importance for collective bargaining negotiations and for how our system is set up.

Today the Danish model is riding high in Europe. But without change it will lose its position. Fortunately there is much to indicate that a capacity for change and adaptation is indeed one of the very special features of the Danish model.



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