Flexibility and security in employment regulation: What can be learnt from the Danish case?

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1. Introduction

In this contribution we discuss one of the innovative policy experiments that promise to reconcile the contradictory demands of employers for flexibility in employment relations and the demands of workers for job security and social security. In a remarkably short time flexicurity – the contraction of flexibility and security – has emerged on the international political scene as a new and popular concept for reforms of labour markets, labour laws and employment policies.

In the following we review the origins and definitions of the concept and then proceed to describe the Danish version of flexicurity. We conclude by assessing the possibilities and impediments for cross-national transfer of policy lessons from the flexicurity concept and specifically the Danish case.

The Danish case is also interesting since it seem to contradict the assumption of the decline of the standard employment contract. Of course it depends on the definition of the indicators of the standard employment relationship. In the Danish case, there is not much evidence to support the assumption that “non-standard” forms of employment like fixed-term contracts, temp agency work, self-employment or part-time employment are becoming more typical. We argue that the resilience of the standard employment contract is related to the specific configuration of flexibility and security on the Danish labour market.

2. Flexicurity: the concept

The concept flexicurity is relatively new in the academic and policy discourse. It was probably first coined in the Netherlands in 1995 in a memorandum by the Minister of Social Affairs and Employment. Flexicurity was defined as a policy strategy to modify job protection for workers on standard contracts and improve job and income security for flexible workers on temporary contracts. In 1999 this strategy materialised into new legislation, the flex-wet act in which dismissal protection for workers on standard contracts was modified, the permit system for operating temp agencies was abolished and job and employment security for atypical workers was improved (Wilthagen & Tros 2004). The academic roots of flexicurity can also be traced to the Netherlands and the research group around Professor Ton Wilthagen (Wilthagen 1998).

The second empirical source of reference for the flexicurity concept is Denmark. In the early 2000’s the concept came to the attention of Danish policymakers and academics (Madsen 2002, 2003, 2004; Bredgaard et. al 2005). It was realised that flexicurity provided a suitable concept to encapsulate specific characteristics of the Danish labour market model, specifically the liberal dismissal protection, relatively generous unemployment benefit system and active labour market policies. The three elements were labelled the “golden triangle” (Danish Ministry of Labour 1999; Madsen 1999). At the same time, international organisations like the ILO and OECD in various publications referred to the
Danish case of flexicurity and thereby assisted in canonising Denmark as “best practice” (Auer 2000; Auer & Cazes 2003; OECD 2004: 97ff.).

Then the flexicurity discourse spread to the European Union. The concept was not entirely new to decision makers in Brussels since various EU-bodies had referred to the balance between flexibility and security since the mid-1990’s (cf. Wilthagen & Tros 2004). But from the mid-2000’s, flexicurity suddenly became a “political celebrity” in the European discourse on social and economic policies (Jørgensen & Madsen 2007). For the EU-Commission, flexicurity became an overarching vision to balance the expectations of economic competitiveness, full employment and social cohesion. In 2007, the European Council decided on a set of common principles on flexicurity and decided to apply the open method of coordination for reporting and monitoring progress in member states. The EU Commission clearly acknowledged that there were different “pathways” to flexicurity and that “one size would not fit all”. Flexicurity is defined by four dimensions: (1) flexible and reliable contractual arrangements, (2) comprehensive lifelong learning strategies, (3) effective active labour market policies and (4) modern social security systems (Council of the European Union 2007). Although these components are broad and open to interpretations, it is striking how similar the four dimensions are to the main elements of the Danish version of flexicurity (Bredgaard et. al 2008).

The European upsurge in popularity can be explained by the promise of flexicurity to reach win-win solutions by bridging the interests of business and employers on the one hand and trade unions and workers on the other. Thereby, the concept was easy to adapt to the role of the EU-commission as a “policy-broker” (Keune & Jepsen 2007). Moreover, the concept is ambiguous and difficult to define, which makes it easy for different actors and organisations to adapt to their own interpretations and interests. This vagueness of the concept probably explains why flexicurity succeeded in turning into a politically attractive semantic magnet (Barbier 2007).

The financial and economic crisis in Europe since 2008 seems, nonetheless, to have dampened the interest of policy makers in the long-term, integrated and abstract reform ambitions of the flexicurity agenda and to have turned their attention towards more immediate concerns of economic recovery and crisis management.

2.1. Defining flexicurity

So how can we define this catchy but elusive concept? At least three different definitions of flexicurity can be identified in the literature: As a policy strategy, a certain state of affairs on the labour market and an analytical concept (Wilthagen & Tros 2004; Bredgaard et. al 2005). The most precise and most widely used definition of flexicurity comes from Ton Wilthagen and his colleagues. Wilthagen defines the concept as a *policy strategy*, more specifically:
"A strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organisation and labour relations on the one hand, and to enhance security – employment security and social security – notably for weaker groups in and outside the labour market, on the other hand." (Wilthagen and Tros 2004: 169).

To qualify as flexicurity, the policy strategy must be synchronic (contain elements of flexibility and security at the same time), be deliberate (the actors must be conscious of this mutuality), and targeted weak groups (persons on the margins of or outside the labour market). This definition is appropriate to describe the policy strategy underpinning policy developments in the Netherlands from the mid-1990’s in which policy makers and the social partners aimed at “normalising” atypical employment relationships. However, Wilthagen argues that the definition is relevant beyond the original Dutch context. In that case, flexicurity must be understood as political attempts to ”normalise” atypical forms of employment (temp-agency work, fixed-term contracts, part-time work, dispatched workers etc.). This can be done by offering more security in such “insecure” employment relationships (e.g. more job protection, rights to an indefinite contract after a specified number of renewals of fixed-term contracts, income transfers when unemployed, sick or injured, pension entitlements, rights to education and training and leave entitlements, etc.). However, it remains unclear how such policy strategies will at the same time increase the flexibility of either atypical or standard workers.

In order to include situations where flexicurity - as in the Danish case - describes a certain state or condition of the labour market, Wilthagen and Tros adds another definition of flexicurity:

"Firstly a high degree of job, employment, income and combination security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows enduring and high quality labour market participation and social inclusion, while at the same time providing a degree of numerical (both external and internal) and functional and wage flexibility that allows for labour markets’ (and individual companies’) timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity “ (cf. Wilthagen and Tros 2004: 170).

This definition better capture the Danish version of flexicurity, even if the normative addition about facilitating the labour market careers and biographies of workers with a relatively “weak position” is not particularly relevant. The Danish case is a stylised description of the “ordinary/normal” labour market and not particularly addressed at “weaker groups”.

The third definition of flexicurity conceives it as an analytical approach to empirical analyses of the combination of security and flexibility in various national labour market systems or in specific programmes or policies. It is important to note that both flexibility and security are multi-dimensional concepts. Using Atkinson’s well-known model of the flexible firm (Atkinson 1984, Atkinson and
Meager 1986) it is common to distinguish between four forms of flexibility: (1) numerical flexibility, (2) functional flexibility, (3) working-time flexibility, and (4) wage flexibility. The innovation of flexicurity as an analytical concept is to combine these dimensions of flexibility with various dimensions of security: (1) job security, (2) employment security (3) income security, and (4) combination security. The different ways of combining flexibility and security are often shown in a matrix illustrating a variety of possible combinations (figure 1 below).

![Figure 1: Flexibility versus security trade-offs](image-url)

<table>
<thead>
<tr>
<th>Flexibility/security</th>
<th>Job security</th>
<th>Employment security</th>
<th>Income security</th>
<th>Combination security</th>
</tr>
</thead>
<tbody>
<tr>
<td>External-numerical</td>
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<tr>
<td>Internal-numerical</td>
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<tr>
<td>Functional</td>
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<tr>
<td>Variable pay</td>
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The matrix offers a heuristic tool that can be applied to empirically identify flexicurity policies as specific trade-offs or at least interconnections between flexibility and security. It can also be used as an analytical framework to identify stylised trade-offs between flexibility and security in different national labour market regimes. The matrix is intended to be applicable at all levels where flexibility and security are combined (national, regional and local labour markets, companies, branch and sectoral levels, individual level etc.). In effect, the approach does not distinguish between the implications of different types of regulation (law, collective agreements, company policies, individual contracts etc.). This lack of analytical delineations allows for empirical diversity in research on flexicurity but sometimes makes the studies incomparable and the accumulation of a body of tested knowledge difficult.

The definition of flexicurity as a trade-off between flexibility and security – or at a more fundamental level between capital and labour – can also be criticised for simplifying the nexus by not including the possibilities of virtuous and vicious circles (Leschke et. al 2006). Finally, an important dimension of labour markets which is also neglected in the flexicurity matrix is the difference between internal and external labour markets. In previous work, we have classified the Danish case of flexicurity as oriented towards the external labour market and compared it to the traditional combination of internal flexicurity on the Japanese labour market (life-time employment relationships creating informal job security for standard workers which is traded off with working time flexibility, functional flexibility and on-the-job training) (Bredgaard & Larsen 2010).
In the following we will apply the flexicurity framework to describe the relationship between specific dimensions of flexibility and security on the Danish labour market. We focus on the combination between external-numerical flexibility, income security and employment security. These relationships are mainly regulated by law and collective agreements. We will also address the most important preconditions (socio-economic, political and cultural) of Danish flexicurity by describing how the combination between flexibility and security emerged and developed.

3. Flexicurity: the Danish case

When flexicurity was discovered by Danish decision makers and experts in the beginning of the 2000’s, it quickly developed into shorthand for the Danish labour market or the Danish model. As demonstrated above, there is much more to flexicurity than Denmark. And there is more to the Danish labour market than flexicurity. But the concept remains helpful in delineating some specific institutional characteristics of the Danish labour market and their interrelationships. These interrelationships make the Danish labour market different from most other labour markets in the world. At a more general level, Danish flexicurity seem to demonstrate how it is possible in the global economy to combine economic competitiveness and prosperity with generous and expensive welfare state policies (Daemmrich & Kramarz 2009).

There is not a direct chain of causality from flexicurity to the performance of the labour market. It is remarkable, however, that the Danish labour market especially before but also during the current global economic crisis remains among the top performers in Europe. As seen in the table below, Danish activity and employment rates remains among the highest in the European Union. Unemployment rates are among the lowest despite the rapid increase due to the crisis. Furthermore, the structure of unemployment shows that the share of long-term unemployed and youth unemployment is among the lowest in the European Union (see table 1 below).

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1 The “Danish model” used to be a description of the voluntarist and consensus-oriented Danish labour market model in which the labour market organizations (social partners) regulates wage and working conditions by collective agreements and gains influence over the formulation and implementation of labour policies by corporatist implementation bodies or tripartite negotiations (Due & Madsen 1993).
Table 1: Labour market indicators in selected European countries

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Sweden</th>
<th>Holland</th>
<th>United Kingdom</th>
<th>Germany</th>
<th>EU(27)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity rate (% population aged 15-64, 2008)</td>
<td>80.8</td>
<td>79.3</td>
<td>79.3</td>
<td>75.8</td>
<td>76.5</td>
<td>70.9</td>
</tr>
<tr>
<td>Employment rate (%) (1Q2009)</td>
<td>77.2</td>
<td>72.0</td>
<td>77.4</td>
<td>70.4</td>
<td>70.4</td>
<td>64.6</td>
</tr>
<tr>
<td>Unemployment rate (%) (2Q2009)</td>
<td>6.1</td>
<td>9.3</td>
<td>3.3</td>
<td>7.7</td>
<td>7.8</td>
<td>8.9</td>
</tr>
<tr>
<td>Long-term unemployment (%) (+12 months, 4Q2009)</td>
<td>11.1</td>
<td>16.6</td>
<td>21.7</td>
<td>27.4</td>
<td>46.3</td>
<td>35.2</td>
</tr>
<tr>
<td>Youth unemployment (%) (15-24 years, 3Q2009)</td>
<td>11.4</td>
<td>22.2</td>
<td>6.6</td>
<td>20.9</td>
<td>12.1</td>
<td>20.4</td>
</tr>
</tbody>
</table>


The causality between flexicurity and labour market performance is not simple and, so far, not well documented empirically. The relationship between employment protection and the standard employment relationship seems more straightforward. We may assume that countries with stringent Employment Protection Legislation (EPL) on regular workers need to resort to other types of flexibility to remain productive and competitive. This can be internal flexibility (like functional, working time or wage flexibility) or external flexibility (performed by non-regular workers). There seems to be some empirical support for this assumption. For instance, the European Commission suggests that stringent rules on regular contracts tend to increase the incidence of temporary work although the statistical relationship appears rather weak (cf. European Commission 2006: 89). In the Danish case, the outcome of the particular combination of flexibility and security is a relatively constant share of the working age population in open-ended standard employment relationships. Alternatively, non-standard work has also remained relatively constant. In Denmark, the share of persons with fixed-term contracts as a percentage of total employees has fallen slightly (from 11.6% in 1995 to 8.4% in 2008). In the same period, the share of self-employed has also fallen slightly (from 7.6% of total employment in 1995 to 6.3% in 2008). Both of these figures are well below the European average. In contrast, the share in part-time employment remains high and has increased from 21.8% of total employment in 1995 to 24.6% in 2008 (cf. Employment in Europe, various years). But part-time workers are in permanent contracts and are in general covered by the same collective agreements and legislation as full-time workers. This finding contradicts the assumption that the standard employment relationship is eroding due to rapid technological restructuring, globalisation of labour markets, new life course preferences of the workforce or deregulation of restrictive labour market regulation. It is backed by similar evidence on the permanence of “stable jobs” by Auer (2007) who find that average job tenure has hardly changed in the period from 1992 to 2005.
The Danish combination of a flexible labour market with a relatively generous social security system and active labour market policies are often depicted as a so-called “golden triangle”. This illustration, however, tend to neglect the important and independent role played by adult continuing vocational training (CVT). We prefer to depict the Danish employment system as a parallelogram, cf. figure 2 below.

*Figure 2: The Danish case of flexicurity*

The arrows between the corners illustrate flows of people. The *flexibility of the labour market* is indicated by rates of job turnover and average tenure that is comparable to the liberal Anglo-Saxon countries. High job-job mobility is generally found in countries with liberal employment protection. Since the early 1990’s, the OECD has published measures on the strictness of employment protection as a composite index of protection of permanent workers against (individual) dismissal, specific requirements for collective dismissal and regulation of temporary forms of employment. From 1995, the Danish summary indicator has remained unchanged (1.5) and consistently among the lowest in the OECD-area (Venn 2009). Recent research on the impact of employment protection has found that overly-strict regulations can reduce job flows, have a negative impact on some groups of workers

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2 In Denmark, the share of employed who change job from one year to the next is among the highest in the EU. In 2005, this share was 11.5% in Denmark compared to an EU-average of 8.8%. Average job tenure is also comparatively low (less than 8 years in Denmark, the UK and the Baltic states compared to the EU average which is above 10 years). Average job duration (the length of the labour market career divided by the number of jobs the individual has held) was in 2005 the lowest in the EU (less than 5 years in Denmark compared to above 8 years in EU 25) (DTU 2008; Eriksson & Westergaard Nielsen 2007).
(notably youth), encourage labour market duality and hinder productivity and economic growth (cf. quotations in Venn 2009: 5). Thus, the Danish labour market like the Anglo-Saxon countries is characterised by high external-numerical flexibility and low levels of job security. But like the other Nordic countries Denmark is also characterised by a generous and expensive welfare state.

On the labour market this takes the form of relatively generous income security, especially unemployment benefits for low-wage earners. The high job-job mobility increases the risk of spells of unemployment. About 20% of persons in employment each year experience unemployment and a shorter or longer period on either unemployment insurance benefits or social assistance. One of the main assumptions of flexicurity is that the availability of generous income replacements increases the risk-taking willingness of the labour force, thereby facilitating job mobility. Compared to other OECD-countries, Denmark still has one of the longest entitlements periods for unemployment insurance (now 2 years)³ and highest replacement rates for low-wage earners (up to 90% of former income). If unemployment benefits are exhausted or the individual unemployed has not paid contributions to the unemployment insurance funds then means-tested social assistance is available as a last resort (at app. 80% or 60% of the UIB level depending on caring responsibilities). Unemployed individuals have to demonstrate that they are available to the labour market by searching for jobs, taking job offers of the jobcenters and by participating in activation programs. In international comparison, the Danish rules for showing labour market availability are relatively strict (Velfærdskommissionen 2005: 96) and have been tightened repeatedly in the last decade.

In sum, we argue that there is an intimate link between low job security and high income security: Workers and their trade unions accept low job security because they are compensated by income security. Alternatively, companies and the employers associations accept the (relatively) generous welfare services and benefits because they are compensated by a flexible labour force.

The potential disincentives deriving from high income replacement rates are not only addressed by strict availability criteria but also by active labour market policies; the third corner in the parallelogram. Among the OECD-countries, Denmark has the highest total expenditure on labour market policies (2.8% of GDP in 2007) as well as the highest expenditure on active labour market policies (1.31% of GDP) (OECD 2009). Furthermore, the OECD has demonstrated that higher expenditure on active labour market policies tends to increase workers’ perceptions of employment security (OECD 2004: 95-98). As an indicator of the effectiveness of active labour market policies in integrating unemployed persons on the labour market, the incidence of long-term unemployment as a percentage of total unemployment has remained among the lowest in the EU-area (see statistical annex, OECD Employment Outlook, various years or Eurostat, Labour force Surveys). Those who do become

³ Recently, the unemployment benefit period was reduced from 4 to 2 years and the criteria for regaining access to unemployment benefits were increased from 26 weeks of full-time employment to 52 weeks. This measure was an element in the economic recovery package of the liberal-conservative government and took effect in July 2010.
long-term unemployed end up in the target group for the active labour market policy, which – ideally – assist them in finding employment again. Active labour market policies has two important – and somewhat contradictory – functions; to motivate the unemployed to find work unassisted (deterrence effect), and to qualify those who cannot find employment on their own (qualification effect).

Finally, *continuing vocational training* (CVT) – lifelong learning - plays an important role in the Danish version of flexicurity. In international comparisons, the expenditures and share of participants is among the highest in the world (Trepartsudvalget 2006: Ch. 11). For instance, the Eurostat Labour force Survey in 2009 found that Denmark had the highest rate of participation in adult vocational training in Europe. More than 30 percent of people aged between 25-64 years in Denmark had participated in adult vocational training within the last four weeks compared to an EU(27) average of 9 percent. Participation in CVT underpins a flexible labour market by increasing the employability of the labour force, i.e. improving their numerical and functional flexibility (Bredgaard et. al 2009: chapter 8).

### 3.1. Historical preconditions and current challenges

These interrelationships between flexibility and security on the Danish labour market are not a product of any deliberate policy strategy but rather a product of a number of specific historical and institutional preconditions, which we will describe in the following. As we do so, we will also summarise the most important current challenges to the balance between flexibility and security.

*Liberal employment protection* has characterised the Danish labour market for more than a century since the so-called September Compromise between capital and labour in 1899. In this compromise the trade unions accepted the employers “right to manage” and their right to hire the number and types of workers that they deemed necessary. In return, employers accepted the right of workers to join unions and their right to go on strike. With few modifications the employment protection instituted by the September Compromise has remained in effect until now. Although the level of job protection is on average low compared to many other countries, there are different levels of protection for different groups. The regulation and implementation of employment protection is done through collective agreements negotiated by the social partners for each occupational group. This makes the system flexible and adaptable to the diversity in each occupational and sectoral group. Conflict resolution is taking place in a specialised arbitration system administered by the social partners in consultation. An important exception to this rule is the Law on salaried workers (*Funktionærloven*) from 1938. The law defines a salaried worker as a person who conducts office work, clinical work or similar functions or supervises the work of others. The majority of public employees and about half of the employees in the private sector are by implication covered by the law. The law stipulates, among other things, a set of
dismissal rules, especially notice periods depending on the duration of employment. In international comparison, this law seem rather flexible as there is no special protection for public employees and the notice periods and severance pay are still comparatively low.

Low job protection is functional in the Danish industrial structure, which is dominated by small and medium-sized enterprises (i.e. small internal labour markets). It is, furthermore, in line with the long liberal tradition of the Danish welfare state, which, among other things, is attributable to the tradition whereby the social partners have been left to regulate most of the terms and conditions important to the labour market themselves in contrast to the state regulation found in other countries (Jørgensen 2002). Another reason for the high job mobility may be greater willingness to take risks among workers as a result of the comprehensive social safety net and active labour market and educational policies. Thereby, income security and employment security may promote numerical flexibility. Another striking observation is that despite the low levels of formal job protection, there is a high feeling of job security among all subgroups of Danish workers (Auer 2007).

During the financial crisis this feeling of job security has declined somewhat as unemployment started to climb rapidly. When the social partners met for collective bargaining rounds in the private industry sector in spring 2009, the trade unions succeeded in responding to this feeling of insecurity among their members by creating a new right to severance pay. In general, the flexibility of the labour market will decrease if the dismissal costs of employers increase, but the extent to which this new severance pay will affect the hiring and dismissal practices of Danish industry is still unclear.

The backbone of Danish flexicurity is the combination of a flexible labour market with generous income security. The unemployment benefit system dates back to the unemployment laws of 1907 which were administered by the (private but state-licensed) unemployment insurance funds. In 1969 the public employment service took over responsibility for reintegrating unemployed on the labour market but the unemployment insurance funds remained responsible for benefit administration (and from 1979 also administration of the early retirement scheme). At the same time, the net compensation rates of unemployment benefits were increased and the government took over responsibility for financing increases in unemployment rates.

4 The notice period for salaried workers is 3 months after one year’s employment, 4 months after five years employment and 6 months after ten years employment. For construction workers the similar notice periods are 3 days, 5 days and 5 days. For industrial workers they are 21 days, 2 month and 3 months (Madsen 2007: 27ff.).

5 In the two years since the beginning of the financial crisis, 200.000 jobs in the private sector have been destructed, i.e. about 10% of all private jobs. Official unemployment increased from 1.8 % of the labour force to currently 4.2 % (august 2010) and is projected to continue rising until it reaches around 6% in 2011 (national definitions). Furthermore, unemployed persons in active labour market programs are not registered as unemployed but are also available to the labour market (currently around 35.000 full-time persons).

6 This new right means that a dismissed person is entitled to a special severance pay if the person has 3, 6 or 8 years seniority. Then the employer must pay 1, 2 or 3 times a special severance pay. This lump sum is calculated as the difference between the monthly unemployment benefit payment and the monthly wage deducted by 15 percent.
Thereby, a historical compromise was struck between the employers demand for job-job mobility to avoid wage push and the trade unions demand for better income security during unemployment and financial compensation for unemployment fluctuations. Later, the social assistance system was reformed as a last safety net (1976). The responsibility for administration of social assistance and other welfare benefits was decentralised to local governments (municipalities). Thereby, a two-stringed income security system was institutionalised. The public employment service and the unemployment insurance funds administered the unemployment insurance system in consultation with the social partners. The municipalities administered social assistance and other related welfare benefits. The two types of benefits were also constructed on different principles. In the unemployment insurance system eligibility still depend on voluntary membership contributions in contrast to the social assistance system which is means-tested. But in international comparison both unemployment insurance and social assistance is providing relative generous income replacement rates.

In recent years, however, the generosity of the income security system has declined. First, in international comparison the net compensations rate is high for low wage earners and for long-term unemployed, but for high-wage earners with a short unemployment duration its surpassed in other countries. Second, all types of transfer income (including unemployment benefits and social assistance) are regulated each year on the basis of the development in the average wages but with a 0.3 percent deduction and excluding pension contributions. Since the mid-1980s, the gradual implementation of labour market pensions and the yearly deduction has led to a rather substantial decline in the net compensation rate. Finally, the unemployment benefit period has recently been reduced to two years. The net compensation rates for specific groups on social assistance have also been reduced to “make work pay” (e.g. refugees and immigrants, married couples on social assistance). This is not to say that income security has suddenly become ungenerous, but that the relative decline in generosity impact on the propensity to join the unemployment insurance funds and the risk-aversion of the labour force. As membership in unemployment insurance funds and the trade unions declines, the legitimacy of the “Danish model” of voluntarist and flexible labour market regulation declines too and pressures for state legislation grow. Declining income security has already led to demands of trade unions for greater job security.

The third leg in the parallelogram, the active labour market policy, is relatively new, and in its present form dates from the labour market reform of 1994. This reform marked a significant shift from a

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7 Persons with an income that is 150 percent above the average income are defined as high-wage earners. Their net compensation rate is 48 percent in Denmark compared to 58 percent in Germany, 68 percent in France, 49 percent in the USA and 28 percent in the UK (2005-figures reported in Strøby Jensen 2010: 38).

8 Since 1995, the share of the labour force who are members in unemployment insurance funds has declined from 80 percent to 70 percent in 2008. Traditionally, the unemployment insurance funds have been a recruitment channel for the trade union membership. So this is also one of the reasons why trade union membership is declining (from 73 percent in 1995 to 67 % in 2010) (Due & Madsen 2009, 2010).
passive to a more active labour market policy. The trade unions in particular made concessions by accepting shorter eligibility periods for unemployment benefits (7 + 2 years) and by accepting the former right to regain eligibility by participating in activation measures was abolished. In return, the trade unions gained a more active labour market policy with intensified and individually tailored activation policies. The government and social partners thereby compromised to compensate reduced income security with greater employment security. Organisationally, implementation was decentralised to regional labour market councils where the social partners gained strong influence over the administration of the public employment service. The labour market reform was combined with an expansive fiscal policy that kick-started private consumption. Unemployment responded quickly and began declining from its peak of 12% of the labour force in 1993 to 5 % in 2001. In 2001 a liberal-conservative government took office. Their main objective in labour market policy – at least until the financial crisis in 2008 – was increasing effective labour supply. The activation strategy was transmitted to include new target groups like people on sickness insurance benefits, and income benefits were reduced for specific group to “make work pay”. Social policies for inactive adults became employment policies. Organisationally, the responsibility for policy implementation was transferred to local government (municipal jobcenters) and the social partners became sidelined in a more reactive role. Thus, in the last decade there has been a stronger focus on the “motivation effect” of employment policies rather than their “qualification effect” and a shift towards “work first” policies (Larsen 2009). Again, this transformation of the substance and organisation of labour market policies does not imply that employment security is disappearing or that the new employment policies are not capable of reintegrating the unemployed on the open labour market. But the probability of revolving door and carousel effects has increased at the expense of longer-term sustainable job matching.

Finally, *continuing vocational training (CVT)* plays an important role in the functioning of Danish flexicurity. Normally, when job-job mobility is high the incentive of employers to invest in the human capital of their workers is low due to fear of poaching. This is especially the case for investments in general, transferable skills. However, in the Danish case the government and the social partners steps in to avoid under-investment in lifelong learning. The CVT system is predominantly financed by the public budget. CVT activities are more likely to provide general rather than firm-specific skills; skills that are transferable on the external labour market. The social partners are institutionally committed to the planning and implementation of CVT policies. A specific institutional characteristic is that CVT is provided for both the employed and the unemployed and the collective agreements grant individual rights to participation in lifelong learning. The social partners plan and administer the CVT system, even if the state government is its main financer. This financing system externalises the costs of

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9 The ideas behind the activation strategy actually originated from social policy experiments in the municipalities preceding the 1994 labour market reform. In the late 1980’s and early 1990’s municipal government began demanding that young people applying for social assistance (e.g. prospective university students applying for social assistance in their summer holidays) should participate in specified activities and programs (like cleaning municipal institutions or doing the gardens in the private homes of pensioners). These measures had a “deterrence effect” so that young people refrained from applying for social assistance (Larsen et. al 2001).
training and education from the company level, and indirectly serves as a government subsidy to the competitiveness of Danish companies. Partly as a result of this and the extensive entitlements for participation in CVT, Denmark has for a number of years ranked among the top performers in Europe in relation to participation in CVT activities.

In sum, the development of the Danish welfare state and employment system displays a hybrid character between the liberal welfare states characterised by high numerical flexibility and the generous Nordic welfare regimes characterised by high social security. So far this hybrid model has managed to reconcile the dynamic forces of the free market economy with the social security of the universal welfare states. While some writers may be inclined to call this hybrid unstable and bound eventually to head off in either the direction of liberal or coordinated market economies (Hall & Soskice 2001), it is evident that the Danish model is the result of a long evolutionary development and supported by relatively stable institutions and class compromises.

Some of these institutions and compromises are currently shaken by the financial crisis and the economic recovery policies of the government. The government has recently demonstrated that reducing the public deficit is more important than the sustainability of Danish flexicurity. The reduction of the unemployment benefit period is likely to result in strong demands of the trade unions for more job security during the next round of collective bargaining. Alternatively, the trade unions could negotiate for improving income and employment security, which would be more in agreement with the traditional balance in Danish flexicurity. The outcome of this process depend on a variety of unpredictable factors, not least how long it takes to exit from the economic crisis and how the economy develops, the result of the next general elections and the internal strategies of the social partners.

No doubt, the trust between the trade unions and the current government has suffered a blow during the current economic crisis. Generally, mutual trust between the government and the social partners is an important precondition for the balance between external flexibility and security. The government must trust that the social partners are capable of regulating the labour market by collective agreements and trust in their ability to compromise and implement policies that cover the entire labour market. In return, the social partners are granted institutionalised voice in the formulation and implementation of policy decisions on labour market issues. Similarly, the level of trust between the trade unions and the employers association and the climate of collaboration on the workplaces is vital for reaching balanced compromises and negotiated solutions. This is not to imply that conflicts do not exist or that the actors have common interests, but that the viability of flexicurity builds on a high level of social capital and trust necessary to make negotiated combinations of flexibility and security (Bredgaard et. al 2006).
4. Impediments and possibilities for policy transfer

The specific Danish combination of external numerical flexibility, income security and employment security is the result of a long and gradual institutional history and not the result of any deliberate or recent policy strategy. This makes Danish flexicurity impossible to export to other contexts where other institutional preconditions are prevailing. This is not to say that countries with another historical and institutional background may not be inspired by the European policy discourse in general or by Danish flexicurity specifically. There are, however, at least three important impediments to implementing flexicurity-oriented policy reforms.

1. Lack of social dialogue and mutual trust: The two foremost examples of flexicurity, the Netherlands and Denmark, both emerge from a particular set of favourable historical circumstances, namely corporatist systems of collective bargaining with a long tradition of cooperation, coordination and mutual trust between the social partners and the government. These preconditions are not easily replicated in other countries that lack a system of collective bargaining and mutual trust. In a similar vein, Algan & Cahuc (2006) has explained why the Continental and Mediterranean countries cannot implement Danish flexicurity with their lack of “public spiritedness”: “generous” unemployment insurance raises moral hazard issues that are much more difficult to overcome in countries where individuals are more prone to cheat over government benefits.

2. Insiders and outsiders: Another challenge in implementing flexicurity is moving from internal towards external combinations of flexibility and security. This will typically involve that core workers and their trade unions accept increased numerical flexibility (loosening EPL) and thus uncertainty in their working life in order to receive compensation in the form of improved security provided by employers or the government (especially employment security and income security). For the regular employees this implies the risk of being hijacked by accepting more external flexibility without gaining the reward in the form of increased (employment and income) security. Similarly, trade unions in European countries where job protection is high for core workers (like in Spain, Portugal, Italy, France) have been sceptical of the policy proposals in the European discourse that suggest a transformation from job security to employment security. This resistance relates to the vested interest of “insiders” (employed workers and trade unions). Insiders may want to avoid reforms that harm their interests, like loosening EPL for regular workers and easing access to permanent jobs for the unemployed or non-standard employed. Instead policy makers may introduce reforms at the margin, like reforms of temporary contracts, which will eventually lead to more dual labour markets (European Commission 2006: 110ff.). A possible way out of this impasse is to try and buy out resistance to reforms by implementing compensatory schemes for “losers”. In the Danish case, the reduction in the length of the unemployment benefit period was compensated by investments in active labour market policies.
3. Financial implications: Reforms of labour markets that are inspired by the flexicurity principles are likely to have budgetary and financial implications for governments, social security funds, enterprises, and, possibly, workers as well. The European Expert Group on Flexicurity in their report to the European Commission notes that the financial and budgetary cost should be assessed against the direct budgetary benefits of enhanced labour market dynamism enjoyed by enterprises and more general societal benefits of enhanced competitiveness, employment and productivity (European Expert Group on Flexicurity 2007: 35ff.). The problem is nonetheless that while costs are short-term and tangible, the benefits are long-term and uncertain. A policy option is, therefore, to introduce phased reforms and transitional arrangements. The financial implications of course also depend on the flexicurity pathway taken and the specific substance of reforms. Transferring policy from Danish flexicurity would certainly mean higher public spending on income security, active labour market policies and lifelong learning systems in most countries. This would in the short-term be hampered by fear of increasing deficits on the public budgets, especially in the current situation of increasing unemployment and economic crisis. Instead of increasing expenditures it may in some countries be possible to increase the effectiveness of active labour market policies and lifelong learning system without additional costs. The composition of labour market expenditures could also be shifted away from providing subsidies for job maintenance towards active labour market policies aimed at reintegrating the unemployed.

The Danish case may also be taken as an example that the decision of employers to hire “non-standard” workers is not only affected by the stringency of employment protection for standard workers, but also by the level and character of social protection of non-standard workers. If non-standard workers are protected by the same legislation and collective agreements as standard workers, the incentives of employers to avoid regulations and restrictions by hiring non-standard workers will – all things be equal – diminish. Like in the Dutch case, the modification of employment protection for regular workers could go along with a “normalisation” of non-standard work in order to avoid the segmentation of labour markets that is occurring in a number of countries with restrictive dismissal protection. As a side-effect, this combination would undoubtedly meet less political and social resistance, and better reflect the more individualised life course preferences of the European workforce.

The upsurge in interest in learning from Danish flexicurity coincided with a period in which the Danish labour market performed well in international comparisons. There is, however, no simple causality between flexicurity and macro-economic performance. In the Danish case, the main axis between liberal job protection and relatively generous income security also existed in the 1970’s and 1980’s when macro-economic performance was relatively poor and unemployment was high and persistent. The main difference in the institutional set-up of the 1990’s when labour market performance improved considerably was the shift from passive to active labour market policies. This shift in orientation cannot alone explain the positive performance on the Danish labour market (Andersen & Svarer 2007). There
are a number of other factors that need to be factored into the equation and a number of these factors are unrelated to Danish flexicurity. Despite of this, Danish flexicurity illustrate that the institutional facilitation of “protected mobility” is an important ingredient in the current age of international competition, rapid technological changes and transformation of the economy. A generous and expensive welfare state is not incompatible with a flexible and competitive labour market.
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