# Mutual Learning Programme

DG Employment, Social Affairs and Inclusion

## Host Country Comments Paper- DENMARK

# DANISH FLEXICURITY – STILL A BEAUTIFUL SWAN?

## Peer Review on

## Adjustments in the Danish flexicurity model in response to the crisis

**Copenhagen (Denmark), 20-21 November, 2014**

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# 1 Introduction

## 1.1 Flexicurity as a concept and a strategy for policy

The concept of flexicurity deals with the balance between flexibility and security on the labour market. In itself this issue has a long history dating back to the debates about the early forms of economic safety nets provided the welfare state. However, when the term "flexicurity" entered the scene in the late 1990s it gave the discussion a new twist.

Having originated in the Netherlands, the term was introduced into academia in 1998 by the Dutch sociologist Ton Wilthagen, who later became a prominent figure in the European policy debate on this issue (Wilthagen, 1998). Under the Austrian Presidency in the spring of 2006, flexicurity took a leap onto the European political agenda and kick-started the development of the European principles of flexicurity. Flexicurity was no longer solely a subject of academic discussions. It also became part of a political strategy for reforming Europe's labour markets.

The main reason for the success of the new framing of an old issue was the innovative aspect that flexicurity brought into the debate. Historically, flexibility and security had been seen as contradictions. Employers wanted flexibility and employees aimed for more security. There was a need for for compromises between opposing interests.

The main new argument in the flexicurity discourse was that balancing flexibility and security not necessarily meant a question of giving and taking. There could also be win-win situations, where more flexibility and more security could be obtained at the same time. Furthermore, more flexibility was not always the goal of the employers and more security the goal of the employees. To the contrary one could also imagine situations, where employees were interested in more flexibility at work in order to balance work and family-life. Similarly, employers had an interest in having security in the form of a stable and well-qualified workforce.

In this new policy-debate, Denmark became a prominent real-life example of a society, which provided security in the form of unemployment benefits, active labour market policies and life-long learning, while at the same time having a low level of employment security and a flexible labour market measured by average tenure and worker-turnover. The successful Danish employment performance since the early 1990s without doubt also contributed to the interest in the Danish example.

In this context it is important to stress that the Danish "flexicurity model" should be taken as a special case within the wider flexicurity agenda as it is presented in table 1.

*Table 1. Configurations of flexibility and security (the Wilthagen matrix) with some examples of different flexicurity policies*

| | **Job security (keeping your job)** | **Employment security (getting a new job)** | **Income security (when losing a job)** | **Combination security (work-life balance)** |
|---|---|---|---|---|
| **External numerical flexibility (hiring and firing** | Employment protection legislation | Active labour market policy | Unemployment benefits | Leave schemes |
| **Internal numerical flexibility (flexible working time** | Short-time working arrangements | Part-time training schemes | Supplementary benefits | Part-time pension |
| **Functional flexibility (workers being flexible between different tasks)** | On-the-job training | Life-long learning | Wage-subsidies for training | Voluntary working time arrangements |

| | | | | |
|---|---|---|---|---|
| **Wage flexibility (or labour cost flexibility)** | Reductions in social security payments | Wage subsidies for vulnerable groups | Flexibility in collective wage agreements | Voluntary working time arrangements |

Note: The flexicurity policies mentioned in the cells of the table are only examples of the range of possible flexicurity arrangements.

As illustrated in table 1, it is possible to distinguish between four different forms of flexibility: numerical flexibility, working time flexibility, functional flexibility and wage flexibility.

These four forms of flexibility can be linked with four forms of security. First, job security, which means the security of being able to stay in the same job, and which can be expressed via employment protection and tenure with the same employer. Second, employment security, which means security of staying employed, though not necessarily in the same job; here the general employment situation, active labour market policy and training and education polices play a key role. Third, there is income security, which relates to being secured income in case of unemployment, sickness or accidents, and is expressed through the public transfer income systems, such as unemployment and cash benefit systems. And finally, combination security, the possibilities available for combining working and private life, e.g. through retirement schemes, maternity leave, voluntary-sector unpaid work etc.

As illustrated in table 1, there are sixteen potential combinations of flexibility and security. This matrix - also known as the Wilthagen matrix - is a heuristic tool, applicable for instance in characterising different flexicurity policies or combinations of flexibility and security in certain schemes, or to describe stylized relationships between flexibility and security in different national labour market regimes.

In the latter context, Denmark can be seen as a special case, where low EPL and high external numerical flexibility are combined with income security and active labour market policy, as shown by the grey cells in table 1. But other configurations (or "flexicurity regimes") are also possible. For instance one may have a higher level of EPL combined with functional flexibility and working time flexibility, which is often taken as an ideal-type description of the German labour market.

In this context one should stress that the exercise of putting countries into the cells of the Wilthagen-matrix should be interpreted with caution. In reality all countries will of course have examples of all the possible combinations represented in table 1. For instance there is also a high degree of working time flexibility in the collective agreements that regulate the Danish labour market. When one talks about the Danish "flexicurity-model", this should therefore be viewed as an "ideal-type" and not a full representation of the reality of the Danish labour market.

## 1.2 The challenges posed by the economic crisis to flexicurity

The financial crisis hit Europe in 2007-08 and marked the beginning of an era of economic stagnation. A striking feature has however been the very different effects of the crisis on employment and unemployment in the different Member States of the EU. Some countries experienced steep declines in employment and rising unemployment, while others showed a much better labour market performance.

One issue for debate has of course been, whether there is a correspondence between the overall flexicurity regime of a given country and its performance. Were countries with low EPL and high external flexibility – like Denmark – hit harder than other countries, and did this illustrate the downside of the "model country"?

Also, when looked upon as a political strategy, flexicurity has been facing resistance. This is especially the case, if it is understood as a strategy for "going Danish" in the sense that EPL should be lowered, while security institutions in the form of benefit systems and ALMP should be expanded. Here it is not surprising that political scepticism

increased in the light of both rapidly rising unemployment and decreasing public financial resources for expanding the safety nets.

## 1.3 Still a topical issue

However it is important to stress that while the term "flexicurity" may have retreated from the top of the political agenda both at the European and the national level, the underlying issue of finding the right balance between flexibility and security and the search for win-win combinations is still highly relevant.

Therefore the present paper aims at setting the scene for a debate about the pros and cons of different flexicurity regimes and about the strategies for balancing flexibility and security that should be followed both at the national and the European level.

In this light the following section presents the European policy context, while section 3 gives an in-depth presentation of the performance of the Danish labour market since 2008 and of the policy-reactions than can be observed. The section also covers the issue of whether the main form of security on the Danish labour market are still acting as shelters for the economic storm that hit Denmark and the rest of Europe in 2008.

In section 4 some policy-lessons are drawn from the Danish example, while section 5 sums up the paper and points to some questions for further discussion.

# 2 The European policy context

In the Presidency conclusions of the Austrian Presidency in the Spring of 2006, the Member States were asked to "direct special attention to the key challenge of "flexicurity" (balancing flexibility and security): Europe has to exploit the positive interdependencies between competitiveness, employment and social security". At the same time "The Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity." The outcome of this process was a set of common European principles of flexicurity with the following four components contained in a communication from the Commission in July 2007:

- Flexible and reliable contractual arrangements (labour laws, collective agreements and work organisation)
- Comprehensive lifelong learning (LLL) strategies
- Effective active labour market policies
- Modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility.

As a reflection of the different national frameworks and preconditions for labour market reforms, a paper on a number of pathways to flexicurity was also published in 2007 by an expert group having Ton Wilthagen as rapporteur (European Expert Group on Flexicurity, 2007).

During the following years a number of reports and policy documents dealing with flexicurity were published by the Commission. The Member States also reported on their national progress in their yearly National Reform Programmes. The latest example of a policy document stressing the role of flexicurity is the Commissions Communication on job-rich recovery (2012), which was also supported by a more detailed staff working document from the same year, which discussed the options for flexicurity policies in a crisis context. The working document concludes that:

> *The experience of recent years has confirmed flexicurity as a framework and a tool to understand and implement employment policy-making and to identify good and bad practices. It continues to be a useful concept within the employment agenda, supporting Europe's effort to build open, dynamic and inclusive labour markets. (p. 21)*

A recent study published Directorate-General for Employment, Social Affairs and Inclusion (2013) however summarizes the current situation in a more sceptical tone:

> *From the data we analysed, the additional flexibility obtained during the crisis does not seem to be compensated by increased security. Rather the contrary. Undoubtedly, in countries where flexicurity policies were/are in place (Nordic and Continental) the effects of the crisis (in terms of unemployment and GDP growth) have been less severe than in other countries characterised by high labour market rigidities..... It is still unclear whether the increased flexibility will produce the economic advantages to reach enhanced security levels in the long run or if rising social inequality, worsened by flexibility, will rather damage the social fabric and will ultimately be detrimental to the entire economy. (p. 3-4).*

Together the two views on the prospects for implementing comprehensive flexicurity strategies thus form a useful starting point for a debate about the current role of flexicurity both at the European level and within each Member State. In this context the Danish experiences during the crisis may hopefully also contribute to throwing some light on this complex issue. This is the subject of the next section.

# 3 Danish flexicurity and the crisis

## 3.1 Some stylized facts of the Danish flexicurity model

The introduction has already mentioned the core features of the Danish version of flexicurity and the need to distinguish between the "ideal-type" description and the actual Danish situation. Still it can be useful briefly to revisit the statistical foundation for putting special emphasis on the level of flexibility and the security institutions that are assumed to make Denmark stand out as a distinct flexicurity regime. The figures are found in the annex.

Figure A-1 shows the level of protection of ordinary workers against individual dismissals in a number of OECD-countries in 2013, which is the latest year available. In previous versions of the OECD-indicator Denmark was placed in the lowest end of the ranking together with the UK and Ireland. In the new version labour market reforms in Spain and Greece has decreased their indicator significantly. However, compared to a number of Nordic and Central European countries, Denmark still stands out as having a relatively low EPL for ordinary workers.

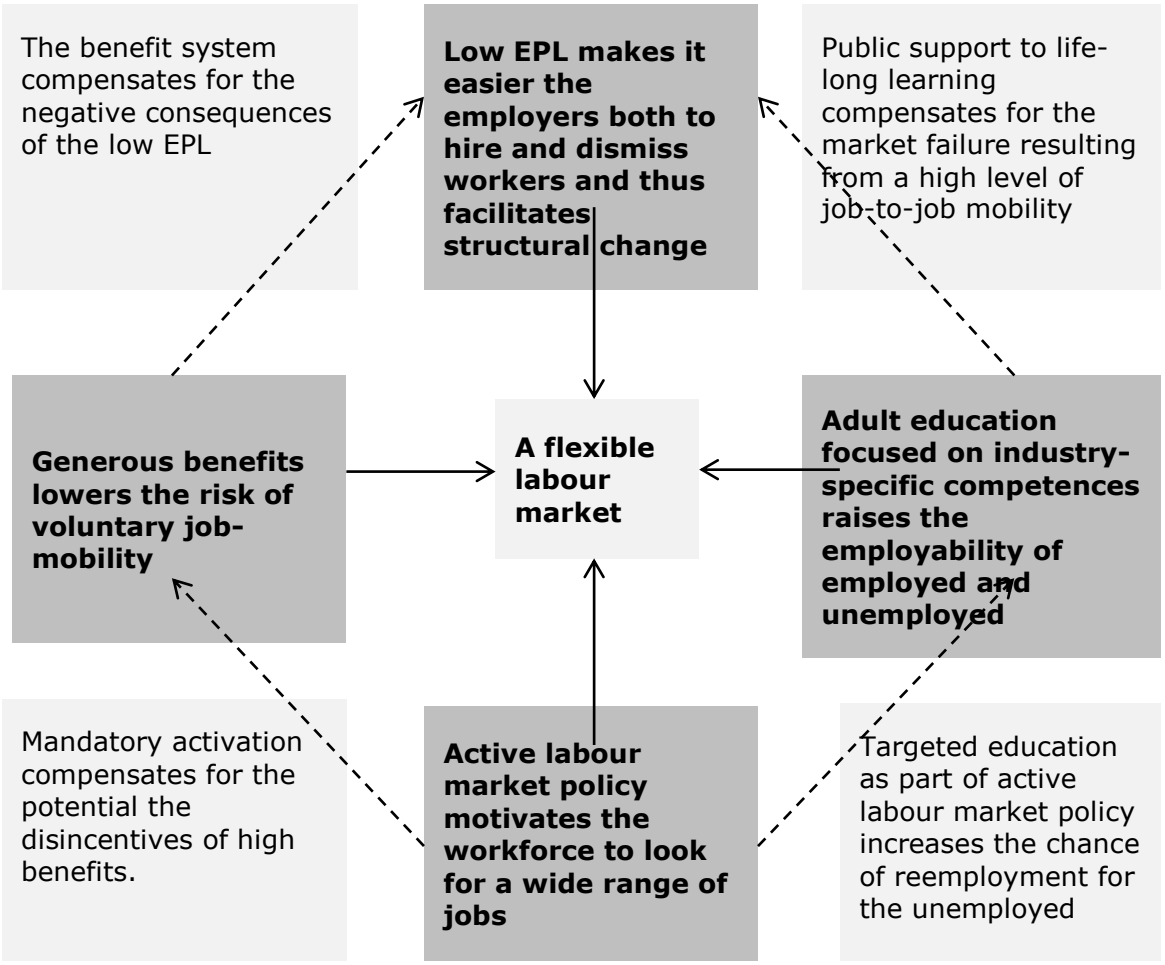
When it comes to the actual job-to-job mobility on the labour market measured in figure A-2 by average tenure, Denmark has the lowest figure in the sample as an indication of a high level of numerical flexibility.

Figure A-3 and A-4 shows the usual indicators of security arrangements. The Danish net replacement rate for short-term unemployment is in the top end of the range. The same goes for the share of GDP allocated to active labour market policy. Also according to Eurostat's LFS, the share of adults (25 to 64 years) having taken part in formal or non-formal education and training during the last four weeks was 31 percent in 2013, which was the highest share in the EU. The average for EU-28 was 11 percent.

There is thus an empirical foundation for the traditional illustration of the Danish flexicurity model as a "golden triangle" of a flexible labour market, social security and active labour market policy supplemented by a strong tradition for life-long learning.

Finally it is important to stress that the characteristics of the Danish model should not be confined solely to looking at each of its elements in isolation. To the contrary one must emphasize the important institutional complementarities between the different elements of the model including the benefit system, the low EPL, active labour market policy and life-long-learning as they are illustrated in figure 1.

**Figure 1: The institutional complementarities of Danish flexicurity**




Source: The figure is inspired by unpublished work of Mads Peter Klindt and Thomas Bredgaard, Center for Labour Market Research, Aalborg University.

## 3.2 The performance of the Danish labour market in the crisis[1]

As mentioned above, Denmark received considerable international attention during the decade before the economic crisis. The flashing of the highest employment rate in the EU, the low level of unemployment and an overall positive macroeconomic performance made Denmark stand out as a best practice for Europe (Madsen, 2006).

Both in the international as well as in the Danish debate there has, from time to time, been a tendency to jump to the conclusion: that the success of the last decade is a result of the flexicurity model just described. It is, however, essential to point out that the positive development in the Danish labour market since the early 1990s was not attributable exclusively to the Danish flexicurity model. Without a successful balancing of the macroeconomic policy and the trends in the international business cycle, the growth in employment and the falling unemployment would not have been possible. However, the flexible labour market played a decisive role in the smooth transition from the crisis of the early 1990s to the full employment and low inflation period of the following years until 2008.

After 2008, Denmark like most other European countries fell into a deep recession. This was the combined result of the steep decline in the international economy and the bursting of a national housing bubble that had developed in since the beginning of the decade and accelerated after 2005. From the peak of the business cycle in the spring of

[1] Section 3.2 and 3.3 are based on updated material from Madsen (2013)

2008 to the bottom of the crisis a year later, Danish GDP fell by 8 percent on a quarterly basis. Reacting more slowly to the downturn, total employment reached its lowest level in the first quarter of 2012, having declined by 7.7 percent. In June 2008, Denmark flagged the lowest rate of unemployment in the European Union. In December 2012 Denmark had dropped to being no. 12 in the rank and only 2.7 percentage points below the average unemployment level of EU-27. Since then the relative position of Denmark has improved somewhat. In July 2014, the unemployment rate was 6.6 percent, which was the seventh lowest in the EU.

In figure A-5 in the annex, the relative increase in unemployment rates in the EU Members States is shown, while figure A-6 depicts the increase in unemployment rates in percentage points. In both figures the underlying data cover the period from the beginning of 2007 to the first quarter of 2014. However, since the Member States were hit by the crisis at different points in time, the increases in unemployment rates in the figures are measured from individual starting and ending points for each country and thus reflect the specificity of the timing of the respective national business cycles.

Based on the information in Figures A-5 and A-6 there is little doubt than Denmark is found among the countries, where both the relative and the absolute increase in unemployment has been the most dramatic. In relative terms Denmark is only surpassed by the Baltic States, Slovenia, Ireland, Greece and Spain. Since Denmark entered the crisis with a very low level of unemployment, the relative increase is somewhat biased. However, also measured by the absolute increase shown in Figure 2, Denmark is mainly surpassed by countries that are traditionally labeled as having taking the hardest blow from the crisis.

The rapid increase in Danish unemployment could of course reflect an equally dramatic decline in employment. In Figure A-7 the fall in employment is compared. Again the change in employment is measured taking into account the national development of the business cycle. The starting quarter is thus the quarter with the highest employment level since the beginning of 2007 and the ending quarter is the lowest level found since the peak.

Based on the evidence in Figure A-7, the Danish crisis on the labour market also appears dramatic with a decline in employment, which is significantly above the average for the EU-27. The same goes for the decline in GDP, cf. Figure A-8.

Finally figure A-9 presents the employment elasticity with respect to GDP defined as the relation between the relative change in employment and in GDP (both calculated from peak to through). Poland is omitted from figure 9 due to the exceptional development in its GDP, which only declined marginally during the economic crisis.

The immediate impression from figure 9 is that the relationship between the change in GDP and in employment in the Danish case is clearly above the European average. Given the notion of Denmark as having a labour market characterized by a high level of numerical flexibility, this comes as no surprise. Especially one also notes that Denmark has a relatively high elasticity of employment to GDP, if one solely compares to the old Member States. Here Denmark is only surpassed by Greece, Spain, Portugal and Ireland. Similar calculations presented in European Commission (2010:28) indicate a parallel ranking of countries with respect to their of employment elasticities of GDP, although there are some differences in the level of the elasticities probably due to differences in the time periods for which data have been available at the time of the calculation and also because the Commissions' calculations are based on the same time period for all countries.

## 3.3 Changes in employment and labour market policies since the crisis

Following this brief comparative exposition of the changes on the Danish labour market, we now turn to the political reactions to the crisis. Which policies have been enacted in order to provide "shelter against the wind"? Do the Danish policy responses to the crisis

reflect a particular "flexicurity profile" and – following that – can the responses be conceived at sustainable in the sense that there are no indications of serious barriers to the implementation of such policies? Or has the stress of the crisis lead to a dismantling of the basic pillars of the model?

This section therefore presents the major policy initiatives, which have been taken as a response to the crisis since 2008.

The policy initiatives are grouped according to the traditional division between macro-economic policy and labour market policy. After an overview of the policy shifts in the respective areas, the text goes on to discuss the issues of conformity with the Danish flexicurity model and its sustainability.

**Fiscal policy initiatives**

The rapid rise in unemployment during the fall of 2008 and the following winter put the issue of "growth packages" high on the political agenda. Since the spring of 2009 a number of concrete expansionary measures have been undertaken. The measures introduced during 2009 and subsequent years include access for the municipalities to increase their investments beyond the existing spending limit, a state subsidy to renovation of private and several public "investment packages" in infrastructure, energy saving etc. Furthermore, taking effect from 2010, a tax reform was introduced, which was not fully financed during the initial years.

To these discretionary fiscal policy measures must be added the fact the Danish economy due to its rather high tax level and the large share of the workforce covered by unemployment benefits, has some of the largest built-in automatic stabilizers in the EU (Dolls et al, 2009). Thus the effects of the economic downturn on income and unemployment are significantly dampened. The backside of this is of course that the public budgets have deteriorated rather dramatically during the crisis.

However, triggered by rising deficits on the public budgets and a recommendation from the European Commission to restrict the deficits, the Conservative-Liberal Government in May 2010 began political negations, which resulted in a political agreement for fiscal recovery to be implemented in 2011 and subsequent years. Important elements in the agreement were combined savings and reallocation of public expenditure and a temporary hold on the indexation of the tax scale, which implies a de facto tax increase. The agreement also implied a cap over the yearly amount of membership fee for trade unions, which the members can deduct, when calculating taxable income and rising fees for labour market training.

The most controversial elements in the agreement was a shortening of the duration of unemployment benefits from four to two years and a tightening of the criteria for regaining access to unemployment benefits, once the right to benefits had been exhausted. These elements are further discussed below.

In October 2011 a new Government was formed by a coalition of socialists, social democrats and social liberals under the social democratic prime minister Helle Thorning Schmidt. This Government has also chosen a cautious strategy with respect to fiscal expansion putting great emphasis on the need to obey the recommendation from the European Commission.

Taking the period as a whole, according to estimates from the Ministry of Finance, fiscal policy in 2009 and 2010 contributed to the growth of GDP by 1.2 and 0.5 percentage points respectively, measured by the one-year fiscal effect. For 2011 the fiscal effect was strongly negative mainly due to a decline in public consumption of -1.5 percent in real term. Also rising taxes contributed to the tightening of fiscal policy. In 2012 fiscal policy was almost neutral, while the fiscal effect in 2013 is again estimated to be negative by -0.3 percent. Thus there is a clear shift in fiscal policy from the first two years of the crisis to the more recent period, where the austerity pressure has set in.

**Working-time and wage-flexibility**

When it comes to direct intervention in the labour market a number of measures have been taken during since the beginning of the crisis. Thus, in March 2009 the existing option for employers to reduce working hours in case of a temporary fall in the demand for its products was made more flexible. Some employers called for the introduction of an even longer duration of the subsidised work-sharing, but both the social partners and the political actors were reluctant to support this idea out of fear that this would simply introduce a permanent wage subsidy to declining branches and companies. In quantitative term the scheme has not become prominent. Thus, in mid-2009 only a total of 25,000 workers took part in work sharing. By the end of 2012, their number had fallen to about 2,000 persons.

With respect to wage moderation, some employers and their organizations have aired the possibility of voluntary wage reductions as a crisis measure, but there are only few examples of actual nominal wage moderation yet. However, the general negotiations in the private and public sector since 2010 have resulted in wage increases that were very modest in a historical perspective and for most groups implied falling real wages.

The most notable element in the collective agreements in the private sector in the spring of 2010 was the introduction of severance pay for blue-collar workers, who had been employed for more than 3 years. The actual amount was rather modest and will after 3 years of employment amount to between 7,000 and 10,000 DKK (930 to 1400 Euro). In the collective agreements conducted in the private sector in the spring of 2012 this new element was further enhanced. The main argument of the trade unions for demanding this new element in the collective agreements was the decline in the income security provided by the UI-system due to the declining replacement rate since the early1980s, the shortening of the duration of unemployment benefits to two years to be implemented from 2012-2013 and the tightening of the access to regain the right to benefits. As mentioned above, the latter two changes were part of the agreement for fiscal recovery from May 2010.

**Reform of ALMP**

As mentioned above, in October 2011 a new Government headed by a Social Democratic Prime Minister took office. In the following years, the Government introduced a number of minor changes of labour market policy. Divided by the various types of programmes, the element of counselling, training and education in active programs was reduced significantly, while traineeships and subsidized employment increased. This was probably partly due to cost considerations, but also to a wide-spread view among experts and policy makers that educational programs were less effective than work-place oriented training.

The issue of a major overhaul of the content, organization, steering and financing of active labour market policy was postponed several time (following failed tripartite negotiations in June 2012). A new attempt to deal with these complicated matters was made the Government in February 2013, where an expert committee was formed with the task of developing proposals for a reform. Based on a report from the committee a political agreement on a major reform of active labour market policy was reached in June 2014 having the following main principles:

- The active employment measures should help to bring unemployed individuals into sustainable employment as quickly as possible.
- A focus on relevant qualification if it is necessary that the individual unemployed are better equipped to achieve sustainable employment.
- Measures should have a more individual focus and rely more heavily on trust and empowerment of the unemployed.
- The job-centre should improve their cooperation with employers and thus contribute to that companies have access to the labour, they demand.

- Active labour market policy should be cost effective, so that resources are used more on measures that help individuals in jobs.

Broadly speaking the reform therefore had as main elements:

- A stronger element of education and training, especially for the low skilled. This should generally be done more through regular training and not through various short-term courses.
- At the same time, increased emphasis was put on regular contact between the unemployed and the job-centre in the form of monthly meetings, which should also involve the unemployment insurance fund more.
- Added to this was a series of organizational changes. In the reform emphasis was placed on strengthening the possibility of a coordinated and needs-oriented effort as much as possible. Consequently, a change was made in the state reimbursement system for the expenses of the local jobcentres. This change involved the same reimbursement rate for all interventions and thus reduces the incentive for the job-centres to take other aspects than the needs of the client into account, when designing a specific intervention. Moreover the reimbursement rate related to the individual unemployed decreases over time so that municipalities have an incentive to early and effective action.
- It was also emphasized to strengthen an interdisciplinary approach through a comprehensive continuing education efforts of the staff in job centres, so different skills and cultures can be developed and integrated.
- At the same time, the reform has elements of being a "trust reform" both in relation to the individual unemployed and the job centres. Each unemployed is given greater freedom of choice in terms of both practical issues such as booking the time for interviews at the job-centre and to the specific choice of activities. Job-centres will be exempt from a variety of procedural requirements, including requirements to activate the unemployed according to a fixed schedule.

The reform will be implemented in 2015.

**Reform of the unemployment benefit system for insured unemployed**

The most disputed measure being part of the plan for fiscal recovery from June 2010 was a reform of the unemployment benefit system, originally to be implemented from mid-2012. The aim of the reform was to increase the supply of labour by motivating unemployed to look for work more eagerly after a shorter duration of unemployment out of fear for exhausting their benefits. It had the following elements:

- Previously, an insured unemployed could receive unemployment benefits for four years out of the last six years. After the reform the maximum period will be two years out of the last three years.
- The conditions for regaining the right to unemployment benefits were harmonised with the rules for qualifying for benefits for the first time. In both cases the criteria will be 52 weeks of full-time employment during the last three years. Before the reform, the requirement for regaining the right to benefits was only 26 weeks.

Not surprisingly, the trade unions have strongly opposed the reform of the unemployment benefit system, which they see as undermining the most important element of income security in the Danish model. They furthermore stress that the reform came on top of a gradual erosion of the compensation rate of unemployment benefits relative to gross wage, which had taken place since the early 1980s, and are also worried that the reform will increase the decline in the membership of unemployment insurance funds, which has also been a long-standing feature of the Danish labour market for decades. By example the share of insured employees in the workforce fell from 78.4 percent in 1999 to 73.9 percent in 2009.

When the reform was decided in May 2010, the expectation among policy-makers was that unemployment would gradually decline towards 2012. However this hope was not fulfilled. As a response the Government postponed the implementation of the reform by extending the duration of unemployment benefits for insured unemployed by half a year for all unemployed, who would have exhausted their unemployment benefits in the second half of 2012.

In the fall of 2012, the reaction of the Government to rising criticism for cynicism towards the long-term unemployed was the introduction of a number of "acute measures" to assist the long-term unemployed, who were at risk of losing the right to benefits in the spring of 2013. However, a large number of unemployed exhausted their benefits during the first months of 2013. This put a hard political pressure on the Government, which responded by a proposal for a "softer" implementation of the reform. After political negotiations with the Red Green Alliance an agreements was signed, which had two main elements:

- Firstly, a special educational allowance, which was introduced as part of the "acute packages", was prolonged by up to six months for persons exhausting their right to benefits during the second half to 2013.Firstly, a special educational allowance, which was introduced as part of the "acute packages", was prolonged by up to six months for persons exhausting their right to benefits during the second half to 2013.
- Secondly, a new temporary so-called "labour market benefit" was introduced from 2014. The benefit is be given to all unemployed, who exhaust their right to unemployment benefits and/or the educational allowance after January 1, 2014. The duration of the labour market benefit will be gradually reduced towards the second half of 2016, where the two year benefit period will then be fully implemented.

The main strength of the reform is therefore that the number of unemployed losing the right to benefits will be more evenly distributed over the period 2013-2016. In spite of these measures, the issue of the shortening of the duration of benefits was still one of the hottest on the Danish political agenda.

Apart from the direct interference with the benefit system, the now former Conservative Liberal Government also in May 2011 reformed the so-called Voluntary Early Retirement Pay, which under certain conditions allowed member of unemployment insurance funds to retire at the age of 60 years and receive a pension similar to UI-benefits until the age of 65. The new political agreement on retirement reform implied that the age for entering the in the VERP was gradually increased by half a year each year from 2014 to 2017. Also the VERP was changed into a three-year scheme com-pared to the existing five years.

At the same time the so-called flexi-job-scheme providing a permanent wage subsidy to disabled persons was made more restrictive by limiting the duration of the wage subsidy to five years. For persons aged above 40 years, the wage subsidy may thereafter become permanent. Also limits were put on the size of the wage subsidy.

Later, in 2013 a broad political agreement concerning a reform of sickness pay was reached, which on the one hand implied a stronger focus on work-rehabilitation, but also that benefits for some claimants of sickness benefits will be lowered to the level of social assistance cash benefits, but without means testing.

Finally, a reform of cash benefits was implemented from 2014. Apart from a de facto youth guarantee, the reform implies that all recipients of cash benefits will be met with clear requirements and expectations. Those who can, should work for their benefit and contribute to the community in public or private service jobs. Also, cohabiting couples will get a mutual economic responsibility to support one another. Today this is only the rule, if you are legally married. The proposal attracted some criticism, because it is estimated that it will lead to net savings on the public budgets.

In addition to the shortening of the unemployment benefit period, these reforms have added to a feeling among trade unions and maybe also wage earners in general that the safety nets of the Danish labour market are under erosion.

**Summing up the policy response: a labour market on auto-pilot?**

In assessing the policy responses to the crisis since 2008, one must highlight that Danish labour market policy to a large degree is "rule-based" in the sense that the law on active employment policy in detail specifies a number of rights and obligations for the unemployed and the jobcentres. Among the most important ones are individual dead-lines for contacts with the job-centre and for taking part in mandatory active programmes. This rather strict regime of monitoring and activation is not related to the business cycle. As also noted by the ILO, Danish labour market policy therefore has the character of an automatic stabiliser, where there is less need for discretionary actions to be taken under a downturn (ILO, 2009:23). [2]

This role is reinforced by the universal character of Danish labour market policy, which encompasses the vast majority of wage-earners (and self-employed) due to their membership of an unemployment insurance fund or access to means tested social security. Thus, according to a study from the Economic Council of the Labour Movement, 85 percent of the employed would qualify for unemployment benefits or social security, if becoming unemployed (Arbejderbevægelsens Erhvervsråd, 2010a). The universalistic character also implies that groups at the margin of the labour market are included under the "umbrella" of active programmes. They therefore both includes programmes that aim at getting the stronger among the unemployed reemployed, and programmes targeted at persons with more severe employability problems like persons on sickness benefits or disabled persons.

A major challenge in this context is of course the necessity to adjust the resources of the job-centres to accommodate to the larger inflow of unemployed that follows from the decline in employment. There were indications that the jobcentres at the depth of the crisis faced severe difficulties in meeting the deadlines. Thus in January 2010 only 58 percent of the insured unemployed started activation in time. For young unemployed aged less than 30 years this was the case for only 42 percent (Arbejderbevægelsens Erhvervsråd, 2010b).

Both when it comes to macro-economic policies and labour market policies a characteristic feature of the Danish policy response is thus its non-discretionary nature. This goes both for the important role of strong automatic stabilisers in the macro-economy and for the rule-based and universalistic nature of labour market policy. In spite of the, one could of course have expected that the crisis had lead to large scale policy reforms that more profoundly changed the Danish labour market model. As described above the response to the crisis has hitherto been within well-known policy boundaries. Applying the classic taxonomy of Hall (1993) one could say that the Danish employment policy has been mainly characterized by first first-order changes, where existing policy instruments are adjusted, but not radically changed.

However one can also identify in some examples of second-order changes, where new instruments are introduced. Thus although "growth packages" have also been applied during previous economic downturns, the strong focus on the need to stimulate job creation in 2009-10 can be interpreted as a policy shift.

Within labour market policy, the shortening of the duration of unemployment benefits from 4 to 2 years that was decided in May 2010 can be interpreted as another important second-order change, given the fact that the duration of benefits had not been applied as a policy instrument since the late 1990s and then in a much less controversial setting given the steady decline in unemployment at the time. The same can be said for the

[2] The rule-based character of Danish labour market policy should not be exaggerated. Thus, when it comes to the implementation of active programmes significant discretion is left to the local jobcentres, cf. for instance the comparative analysis in OECD (2009), chapter 2.

major reform of active labour market policy that will be implemented from 2015. Table 2 sums up the picture.

*Table 2. An overview of Danish policy reactions to the crisis*

| Degree of discretion / Policy area | Automatic | Discretionary |
|---|---|---|
| **Macro-economic policy** | Strong automatic stabilisers due to high tax-rates and income support to unemployed | Growth packages mainly focused on public investments and tax reductions |
| **Labour market policy** | Rule-based system of active measures targeted at all unemployed recipients of transfer income (UI and cash benefits)<br>A wide coverage of income support systems in the form of unemployment insurance and cash benefits for non-insured unemployed | A number of minor adjustments to the various active measures.<br>Initiatives to combat youth unemployment<br>Reforms of disability pension, sickness benefits and flex-jobs.<br>Shortening the duration of benefits from 4 to 2 years and tightening the criteria for regaining the right to benefits<br>"Acute packages" for LTU exhausting their right to benefits from unemployment insurance<br>A major reform of active labour market policy from 2015 |

Among Danish academics it is sometimes argued that the second-order changes described above have already lead to a fundamental change in the Danish flexicurity-model, which makes it relevant to consider it as now being fundamentally different from the model that we have previously known. Whether or not to subscribe to this view is a matter of judgment. When one is in the middle of a historical process it is always hard to assess to degree to which it will later be seen as leading to more fundamental transformations.

However, the present author tend to take the view that the Danish model of flexicurity is still basically intact and retains the same characteristics that is has had for decades. Although some reforms have been introduced in recent years, most policy-makers still support the main characteristics of the model. An explanation for this situation could be that the Danish policy arrangements have in fact managed to handle many of the challenges of the economic crisis. So if it works, don't fix it. One observation in support of this argument is that the speed in the rise of registered unemployment has levelled out during the spring of 2009 and that the forecasts for economic growth are improving somewhat from the disastrous decline in GDP of between 4 and 5 percent in 2009. Thus forecasters publish expected growth rates for 2014 and 2015 around 1.5 to 2 percent. This will not be sufficient to rapidly restore employment and unemployment to their pre-crisis levels, but will prevent them from a continued dramatic deterioration. Also, an important test of the value of the Danish version of flexicurity will be, whether employment catches up rapidly, when GDP comes back on a faster growth track. This would of course be the prediction under a regime of low EPL.

Pointing to the stability of the basic elements of Danish flexicurity does not imply that nothing has changed or that nothing will change in the coming years. To the contrary it is evident that the policy changes described in section 3.3 have put the traditional pillars of the Danish model of flexicurity under stress, but without fundamentally corrupting the functioning of the model.

Table 3 sums up the observations of the stress factors with respect to the three pillars that are traditionally applied in describing the Danish labour market from a flexicurity perspective. First of all it is beyond doubt that the level of income support provided by the various benefit systems has declined along a number of dimensions. Secondly the crisis had put pressure on active labour market policy, where one has also seen a de facto policy change toward less counselling and training. Finally the introduction of new, but minor elements of severance pay is a small step towards more restrictive employment protection. Thus a number of small steps have been taken that – if they turn into a long walk – will gradually transform the Danish version of flexicurity.

However, some trust can be put in the sustainability of the Danish flexicurity model in the longer run, when facing globalization and Europeanization. The basic argument is that the Danish model has been sustainable for several decades – and some elements have survived since the beginning of the last century. The strength of the model is exactly its capability to adapt to the changing external pressures on a small open economy like the Danish.

**Table 3: Stress factors with respect to the main components of the Danish flexicurity model**

| Flexicurity pillar | Stress factor(s) |
|---|---|
| Income support to unemployed covering the majority of wage earners for an extended period of time and with a relatively high compensation rate (especially for low-income groups) | • The shortening of the duration of unemployment benefits from 4 to 2 years taking full effect from 2013<br>• A gradual decline in the compensation rate of unemployment benefits relative to wages since the early 1980s<br>• A decline in the share of workers that enroll in UI-funds<br>• Reforms of cash benefits, sickness pay, disability pension and flex-jobs. |
| Active labour market policies emphasizing early activation and upgrading of the skills of the unemployed and life-long learning | • A falling share of unemployed taking part in counseling and training programs<br>• Problems for the job-centers in keeping the deadlines with respect to activation of the unemployed |
| A flexible labour market with a high degree of external numerical flexibility | • The introduction of minor elements of severance pay for blue-collar workers in the collective agreements in 2010 and 2012 as a response to a decline in the effective compensation rate of the UI-system and the shortening of duration of benefits. This opens for further increases in the future rounds of negotiation. |

## 3.4 Shelter from the storm?

As described in detail above, the crisis has implied a dramatic rise in unemployment and substantial fall in employment. Thus the employment rate declined from 79.7 percent in 2008 to 75.6 in 2013, which is however still more than 7 percentage points above the average for EU-28. Also the labour force has been reduced due to the lack of

demand. Long-term unemployment has more than doubled. Especially young workers, unskilled workers and immigrants and non-insured unemployed are severely affected by unemployment.

A further issue is the adequacy of income support. As already described, about 85 percent of the employed will receive some form of income support, if becoming unemployed. The backside hereof is of course, that 15 percent will be without any safety net and also not eligible for receiving the offers of active labour market policy. The rising number of persons reporting as unemployed in the Labour Force Surveys, but not being registered as unemployed at the job-centres, could be another indication of the limits of Danish income security. Also, the declining membership of the unemployment insurance funds may to some degree be caused by the erosion of the replacement rates of unemployment benefits, which has taken place since the 1980s.

But on the other hand, there are also indicators that the Danish version of flexicurity is still providing the Danish labour market with some shelter against the crisis.

Firstly, while long-term unemployment has been on the rise, its relative level is still among the lowest in the EU. In 2013, the Danish share of the long-term unemployed in total unemployment was 26 percent according to the European LFS. For EU-27 the share of long-term unemployed was 48 percent. Also youth unemployment is relatively low and ranks fifth in the EU. In 2013 the youth unemployment rate was 13 percent compared to 23 percent in EU-28. Also the share of NEET's in the age group 15-24 years was significantly lower than the EU-average (6 percent compared to 13 percent for EU-28).

Second, the basic security arrangements in the form of income security and active labour market policy are still functioning in spite of the increased pressure from the crisis on the labour market. One indication hereof is the observation that Danes rank very low in studies of the economic hard-ship caused by the crisis (Eurobarometer, 2012). When asked about whether the household has run out of money to pay ordinary bills, buy food or other daily consumer items during the last 12 months, 8 percent of the Danes answer positively. This is together with Sweden the lowest share in the EU-27, where the average is 18 percent. When asked about, whether they are able to keep up with household bills and credit commitments, 79 percent of the Danish household state that they can keep up without any difficulties. This is the highest share in the EU, where the average is 44 percent.

When it comes to the "political sustainability" of the Danish version of flexicurity, the support to the present state of affairs with respect to Danish flexicurity seems to be there - even in times of crisis. Or to quote the former Minister of Employment:

> *Still, I have faith in flexicurity. It will serve us well in both the best and the worst of times. Flexicurity allows us to adjust to the changes in the market, and it secures the livelihood of the unemployed (Frederiksen, 2009, p. 2)*

One should mention that he also in the same speech stresses the need for reforms, but only to pre-serve the model, not to dismantle it. A similar positive assessment of flexicurity is also expressed by the OECD (2012:13-14):

> *Flexicurity should help Denmark both during hard times and to achieve strong economic growth over the longer term…This model fosters low unemployment and high employment but it may be tested by prolonged periods of low labour demand…The Danish welfare system acts as a buffer in periods of crisis. While GDP per capita has lost some ground relative to the upper half of OECD countries, well-being in terms of both material conditions and quality of life is very high .This is the result of a well-functioning labour market and a well-developed and generous welfare system that includes social policies directed at helping those with the lowest incomes, broad access to education and free access to most health services. This system is costly, however, with Denmark spending more*

*than 20% of GDP on social policies. Even so, net public social spending is higher in a number of OECD countries where poverty is more prevalent.*

Summing, up the available evidence, Danish flexicurity seems to be able to provide a strong shelter against the storm of the crisis. It also seems to be reasonably robust against political interventions of a more drastic nature that would go far in dismantling the traditional Danish version of flexicurity.

On the other hand it is evident that the combination of policy changes and the economic crisis has put the model under stress compared to its latest heydays during the long upswing of from 1993 to 2008. The balance between flexibility and security has without doubt to some extent drifted away from the equilibrium that until recently gave the Danish model the widespread support from most political parties and the social partners. Whether a new balance can be found – not far from the old one – will depend on the political developments and the reactions of the trade unions over the coming years. If institutions providing income and employment security are further eroded, and if the response from the trade unions is claims for more traditional job security, this could mean a gradual farewell to "flexicurity in Danish".

Finally it must be stressed that the main success criteria for the Danish version of flexicurity should not be its resistance to economic fluctuations, but its ability to support the adaptation of the Danish employment system to the changing forces of internationalisation and globalisation. The proof of the Danish pudding is therefore in the observation that Denmark for decades has been able to keep its position among the top-ten of the OECD-countries measured by Gross National Income per capita (Arbejderbevægelsens Erhvervsråd, 2014).

# 4 Options for learning

This section discusses the options for learning from the Danish experience. It is divided into three sections taking first a Danish view, then the point of view of other Member States and finally the perspective of EU as a whole.

## 4.1 Learning for Danes

If one accepts the premise that the Danish version of flexicurity creates a well-functioning employment system, this premise leads to at least two sorts of policy conclusions for the Danes themselves.

Firstly, care should be taken that the main features of the model are kept intact. This calls for a preservation of the important institutional complementarities between the different elements of the model including the benefit system, the low EPL and active labour market policy as they are illustrated in figure 1 above.

On the other hand, the ever-shifting challenges to the model both from internal and external factors also call for constantly updating the model. A prominent example of this is the recent reform of active labour market policy and the ambition to let the unemployment benefit system undergo a thorough revision, which among other things will make it better adapted to a labour market with a high level of international mobility.

## 4.2 Learning for other Member States

When it comes to the options for other Member States the first observation is of course, that the Danish model of flexicurity cannot be copy-pasted! The model has a long and specific history and is closely related to other features of the Danish society line the welfare state and a high level of social capital and trust.

However, from an analytical point of view, one can be inspired to look not only at specific elements of the employment system, but also at the interactions between the elements as illustrated also in figure 1 above. Therefore an important point from the flexicurity discourse in general and the Danish case in particular is the benefits from taking a holistic approach to both labour market analysis and the design of labour market reforms.

Furthermore some specific policy lessons may be drawn.

Firstly, the Danish case shows that a relatively low level of EPL for ordinary workers seems to support the inclusion of outsiders (e.g. LTU and youth) into the labour market. The low level of EPL should then be balanced by well-designed ALMP and income support systems, which assist those individuals that are negatively affected by the higher level of numerical flexibility.

Secondly, well-designed active labour market policies can help to keep labour market segmentation low, also in times of crisis, and prevent LTU and youth unemployment from soaring.

Thirdly, welfare arrangements like child care and maternity/paternity leave seems to support the flexible labour-market participation of women. This element has not been the focus of the present paper, but should of course be included, when taking a broader look at the merits of the Danish model, which supports a high participation rate for women, also during the periods, when they have responsibilities for small children.

The downside of this policy advice is of course that most of it will be hard to implement in times of crisis with increased fear of redundancies and lack of public funds for security measures.

## 4.3 Learning at the EU-level

From the EU-perspective one important point is to repeat the old lesson that there are several pathways to flexicurity. This is also stressed by the various experiences and

situations of the Member States both before and during the crisis. The recommendations for flexicurity-oriented reforms must be adapted to the specific circumstances.

Secondly, it is important to stress the need to balance flexibility and security in a comprehensive approach to avoid the misconception that flexicurity is solely or mainly about lower EPL and more numerical flexibility. It is obvious that the skepticism of many European trade unions towards flexicurity is founded in a suspicion that it is basically a strategy for rolling back a number of the rights of wage earners with respect to regulation of working conditions and labour law without replacing them by sufficient new forms of security arrangements (Keune and Jepsen, 2007).

# 5 Summing up and points for discussion

## 5.1 Summing up the argument

The main arguments of this paper can be summed as follows:

- A distinction must be made between the "Danish model of flexicurity" as an ideal-type and as a real-life employment system.
- The Danish model of flexicurity is not resistant to economic crisis. To the contrary, rather large fluctuations in employment can be expected.
- The policy changes made during the crisis have in some cases implied minor steps away from the previous balance between flexibility and security, but the main elements of the Danish version of flexicurity are still intact.
- During the present crisis, the model has provided "shelter from the storm" measured by the minor effects on LTU, youth unemployment and marginalization.
- The main success criteria should however be the longer-term adaptability of the economy to the shifting pressures of globalization. Here the Danish model has proved successful.

## 5.2 Points for discussion

The material and the arguments presented can give rise to a number of points for discussion following up on the Danish experience and considerations about the relevance of various forms of flexicurity in other Member States:

- How has different national labour market models performed during the economic crisis and to what degree are the differences related to differences in EPL and other labour market characteristics?
- Does such a crisis serve to highlight any gaps in existing systems and to lead to wholesale system change or change on the margins?
- What lessons concerning the effects of labour market reforms and crisis management can be drawn from the Danish case?
- What are the options and barriers for transnational learning with respect the positive and negative experiences with the Danish model of flexicurity?
- How can the EU support the creation of more flexible and secure labour markets based on the Danish (and other national experiences)?
- Which flexicurity approaches perform best – and in which contexts - to mitigate the impacts of a crisis and place a country on a good road to recovery?

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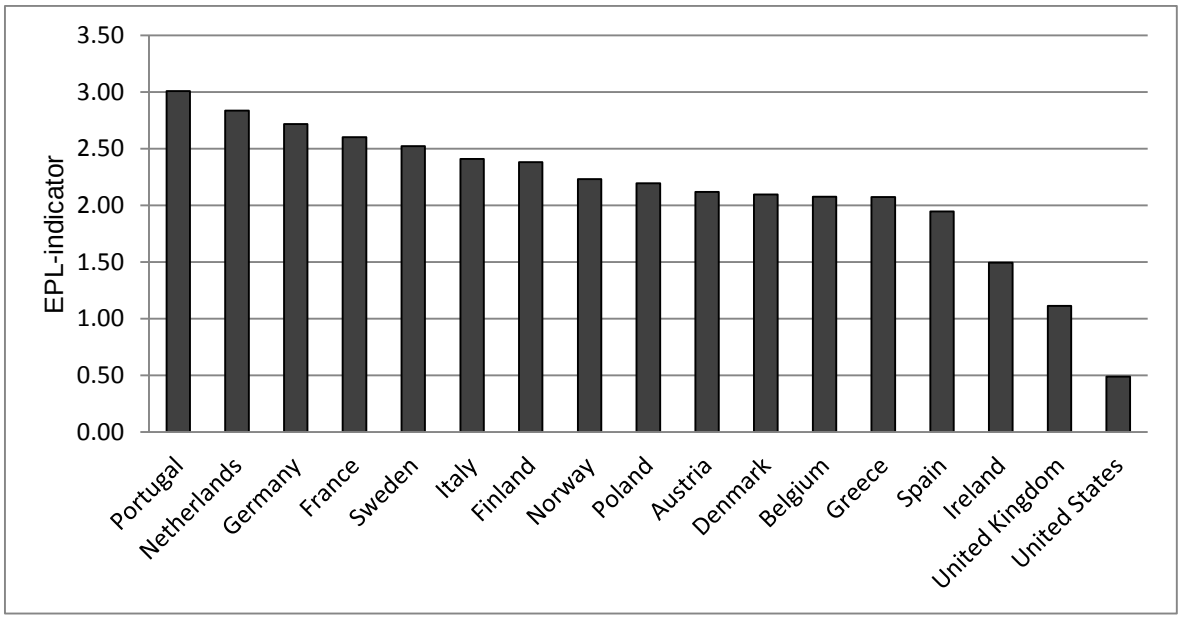
# 7 Annex




*7.1 Figure A-1: Level of protection of ordinary workers against individual dismissals in a number of OECD-countries in 2013. Source OECD.*

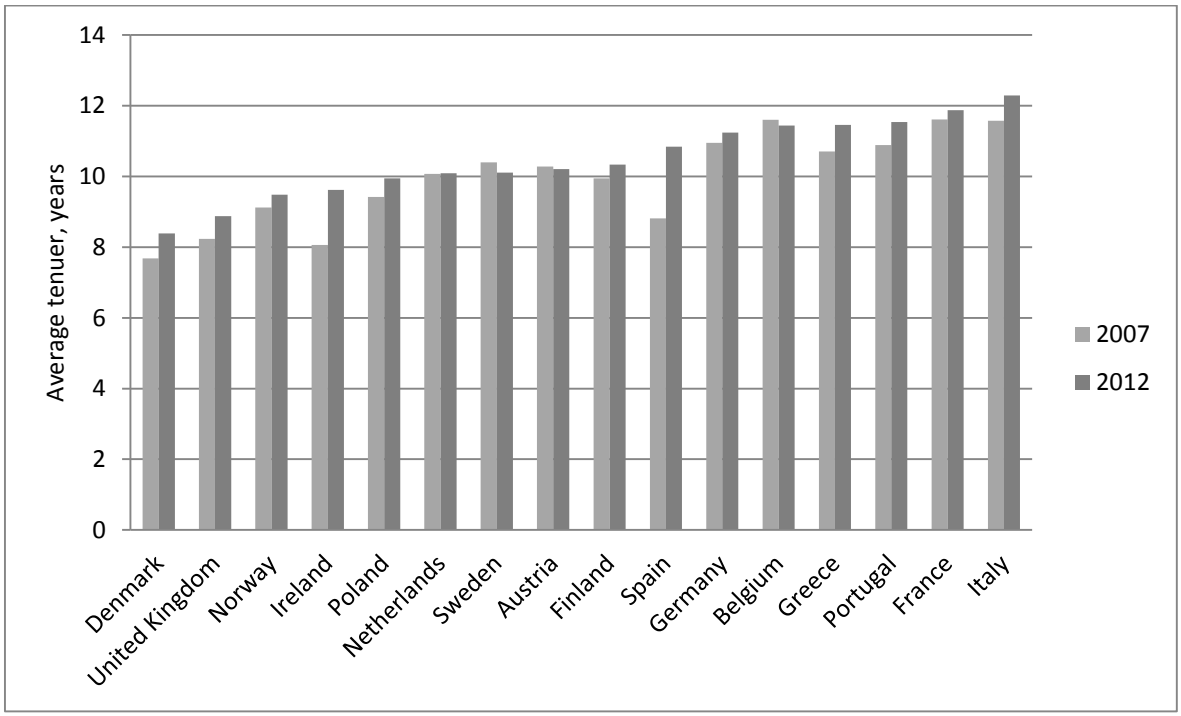



*Figure A-2: Average tenure in different OECD-countries, 2007 and 2012. Source OECD.*

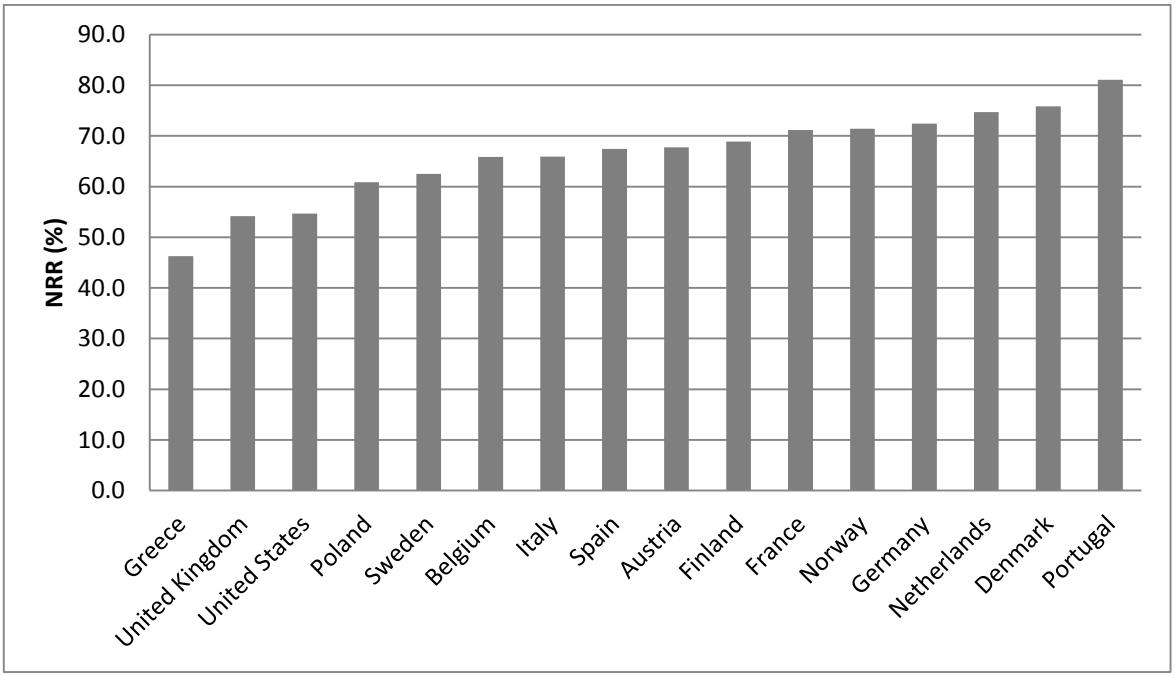



*Figure A-3: Net compensation rates in the initial phase of unemployment, 2011. Average of six family types and three income levels. Source: OECD (2013)*

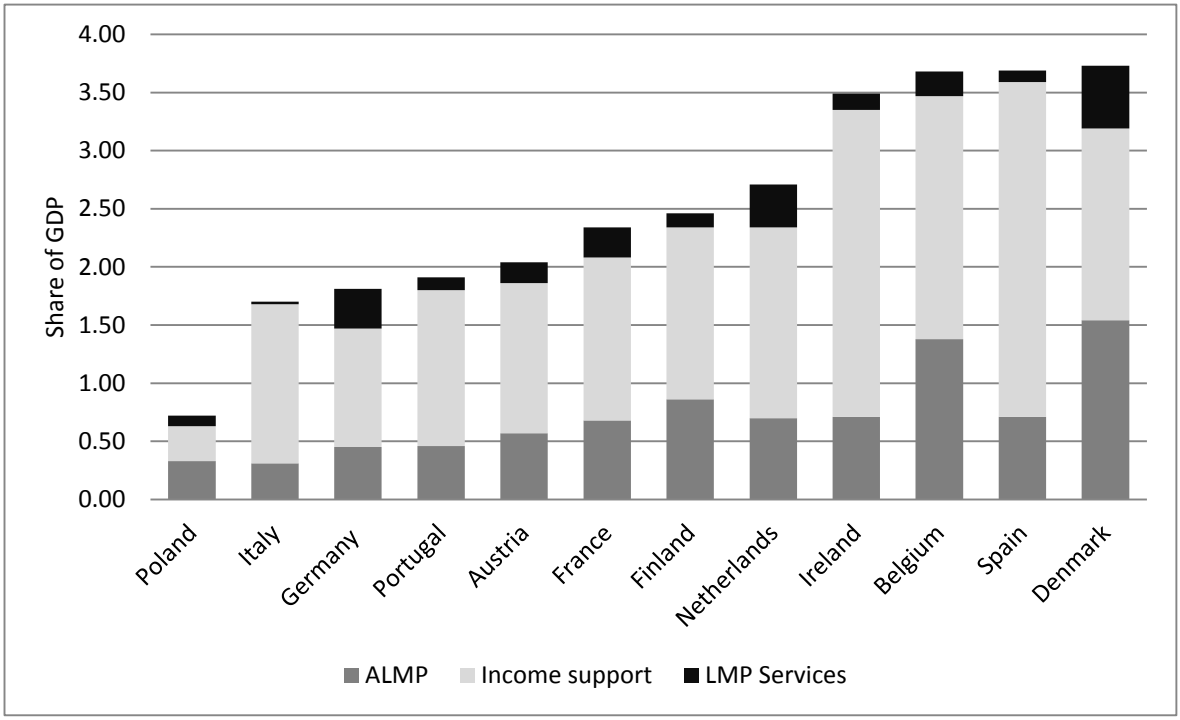



*Figure A-4: Expenditure on labour market policy by type, 2011. Source: Eurostat*

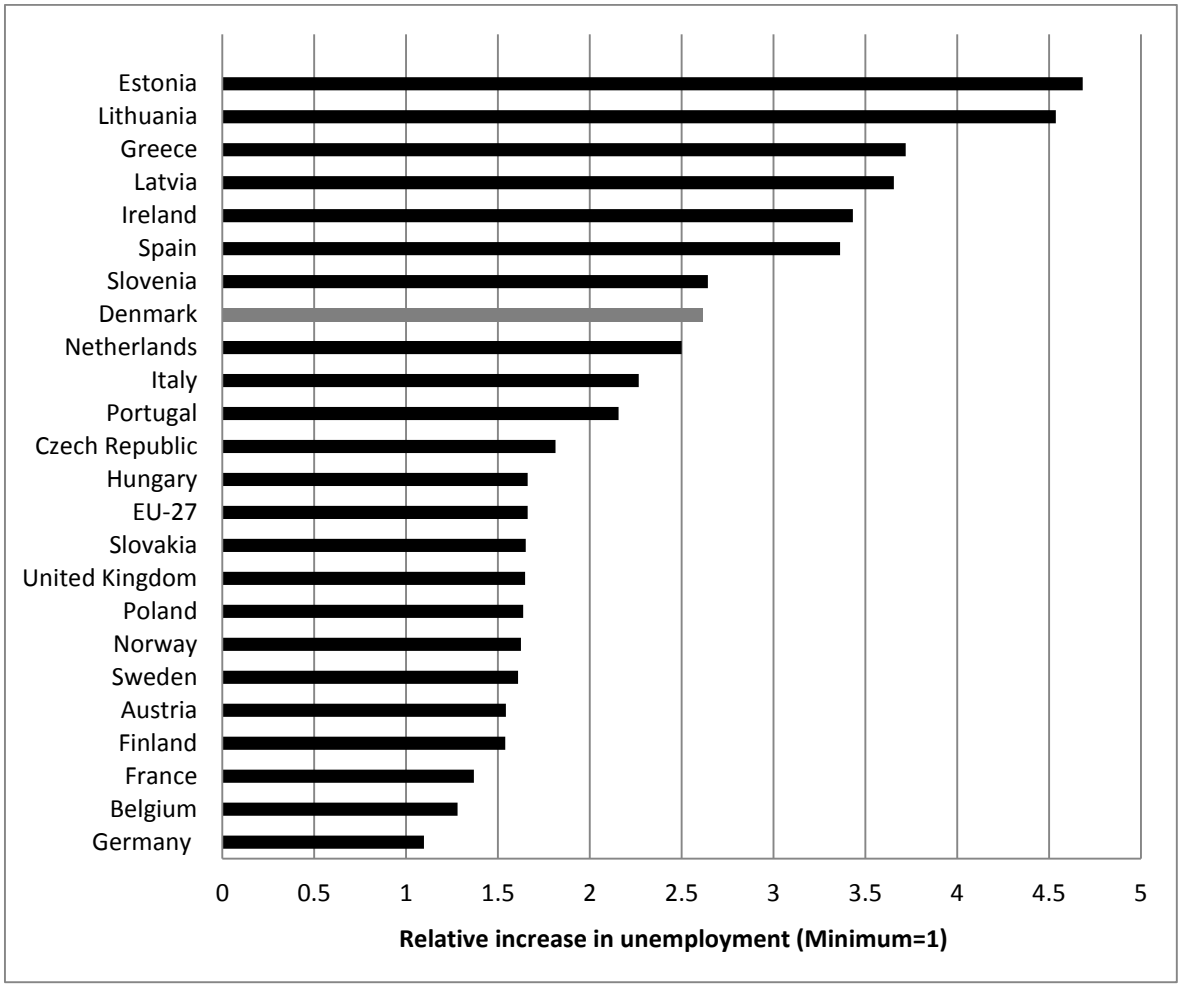



*Figure A-5: Relative increase in unemployment from national minimum to 2014Q1 or national maximum if earlier than 2014Q1. Observation period 2007Q1 to 2014Q1. Source: Calculated by the author on the basis of LFS, Eurostat*

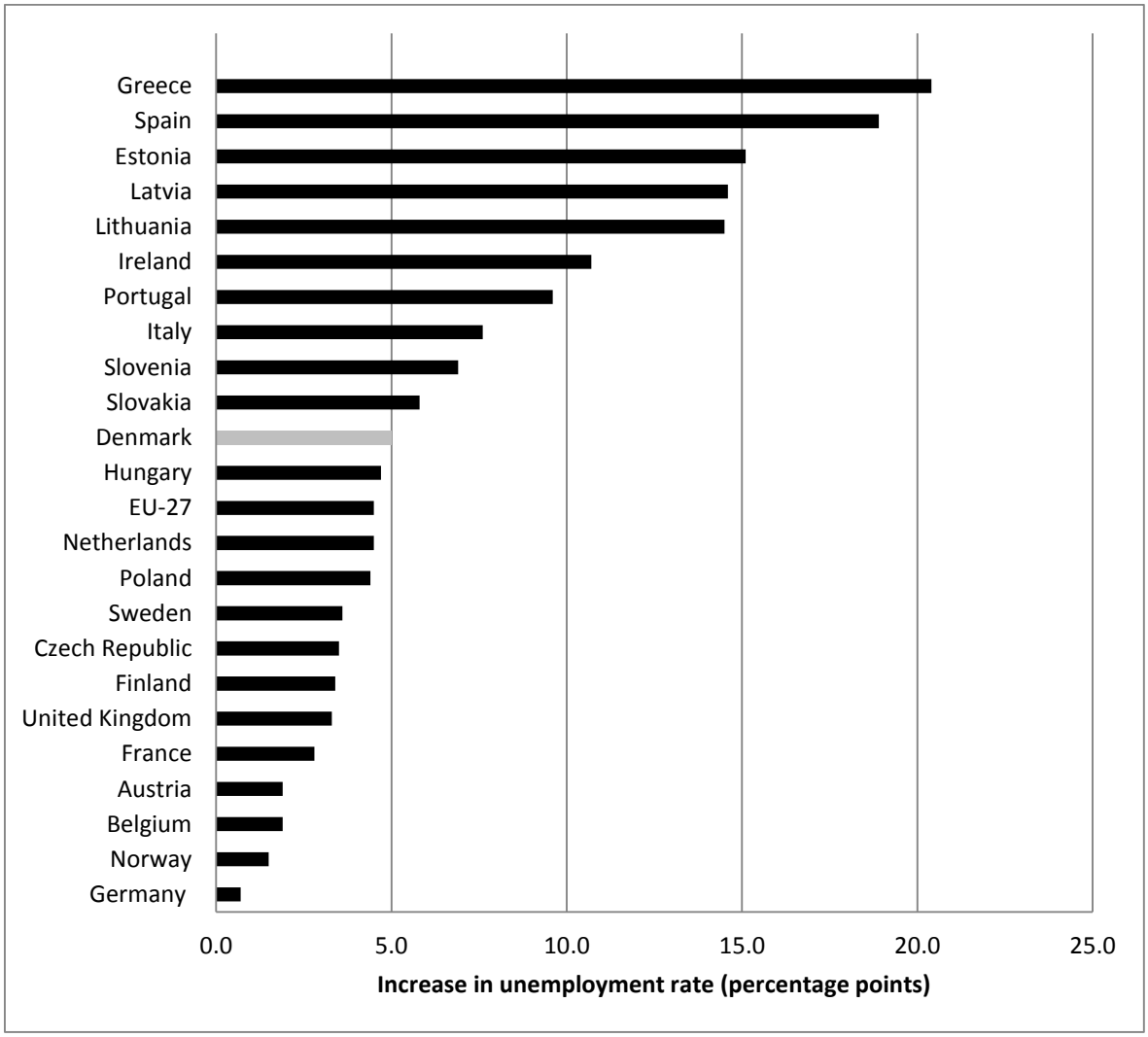



*Figure A-6: Increase in unemployment in percentage points from national minimum to 2014Q1 or national maximum if earlier than2014Q1. Observation period 2007Q1 to 2014Q1. Source: Calculated by the author on the basis of LFS, Eurostat*

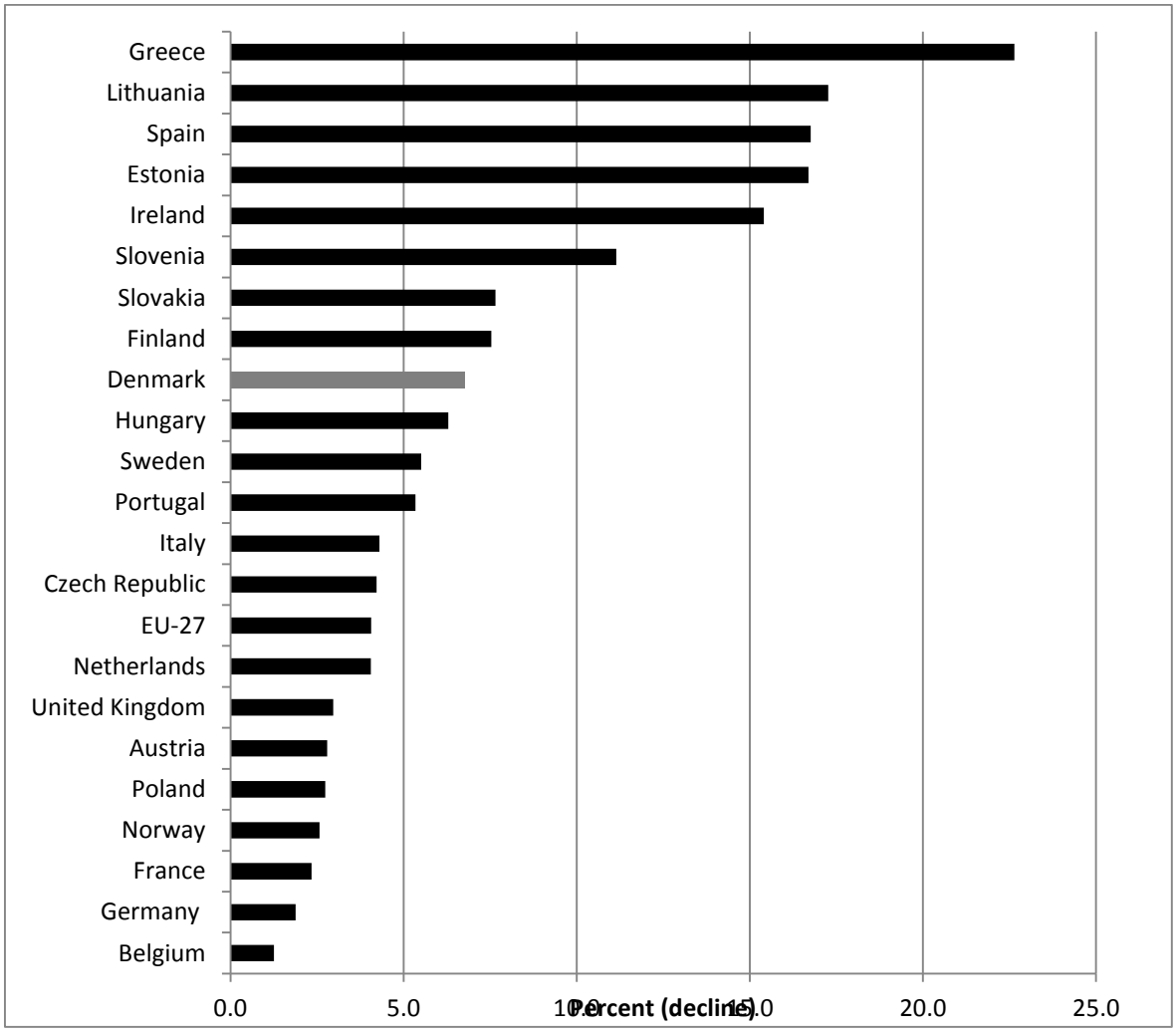



*Figure A-7: Relative decline in employment from national peak to national minimum. Observation period 2007Q1 to 2014Q1. Source: Calculated by the author on the basis of LFS, Eurostat*

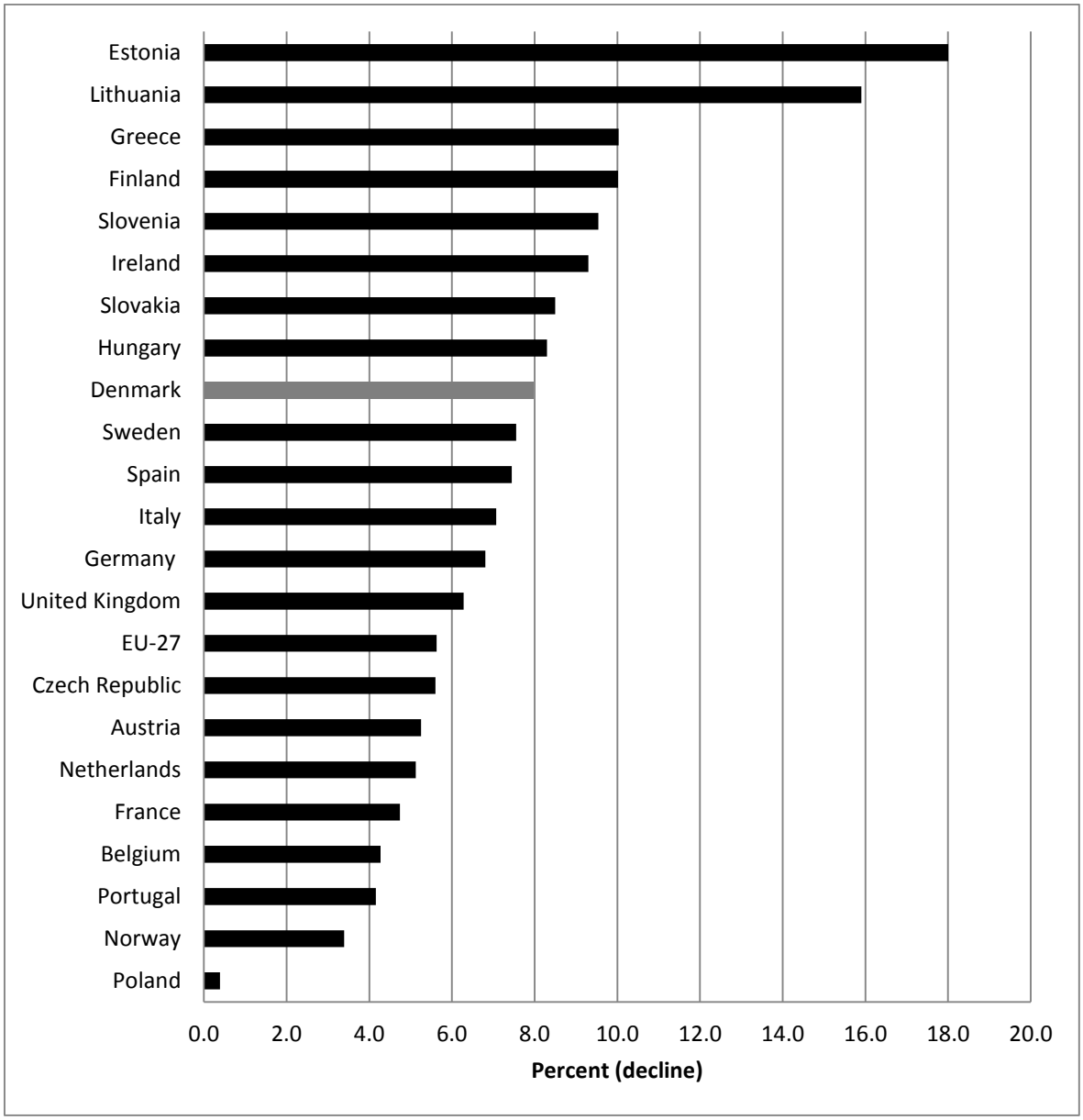



*Figure A-8: Relative decline in GDP from national peak to national minimum. Observation period 2007Q1 to 2014Q4. Source: Calculated by the author on the basis of Eurostat.*

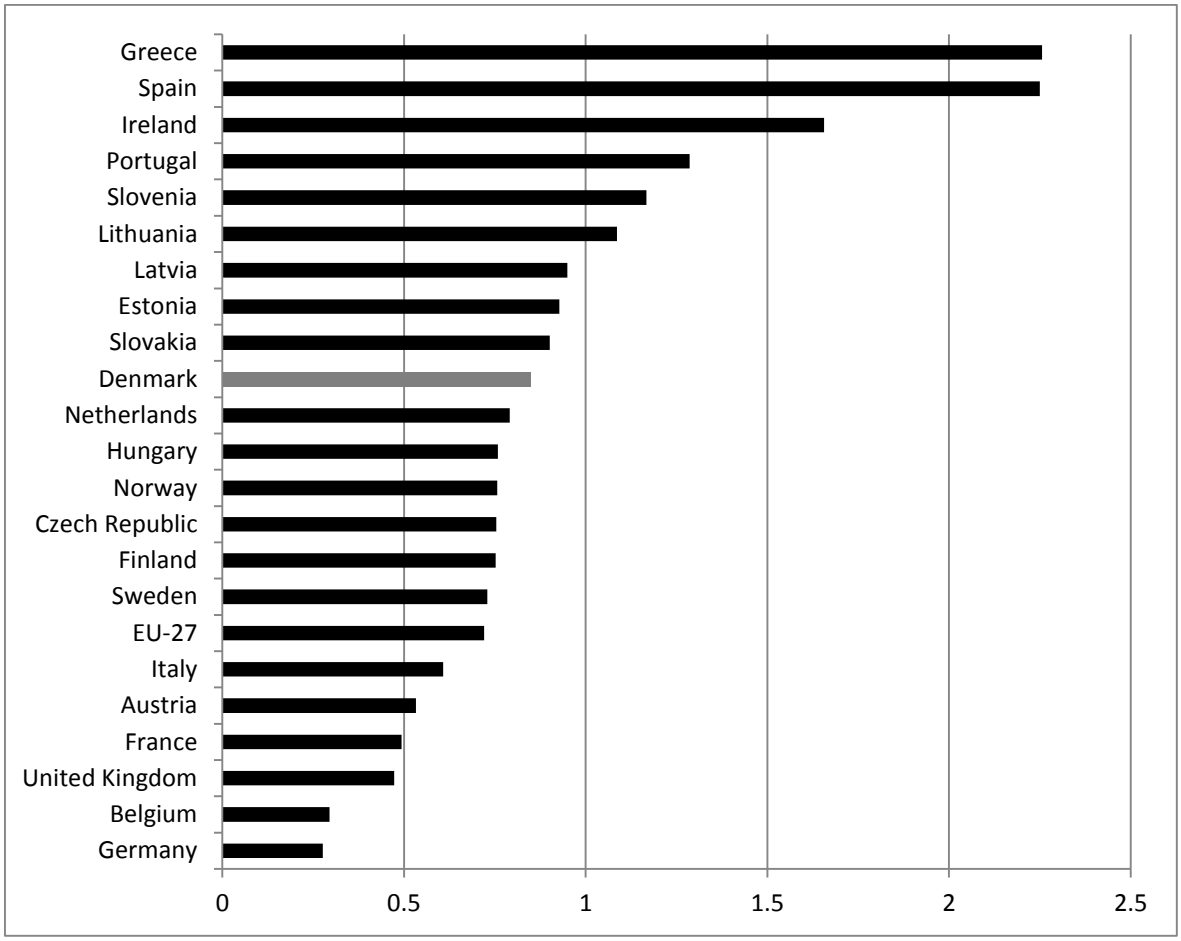



*Figure A-9: Elasticity of employment with respect to GDP, national peak to national minimum. Observation period 2007Q1 to 2014Q1. Source: Calculated from data in figure 3 and 4.*

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