Can the Danish model of “flexicurity” be a matrix for the reform of European labour markets?

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Le modèle danois de « flexi-sécurité » peut-il servir de matrice pour réformer les marchés du travail européens ?

Résumé
En Europe, l’intérêt porté au système danois de « flexi-sécurité » n’a cessé de croître ces dernières années. D’après la Commission Européenne, la subtile combinaison de flexibilité et de sécurité mise en place par les danois devrait même servir de matrice pour la réforme des marchés du travail dans les autres pays européens.

Cet article analyse les éléments essentiels du modèle danois pour déterminer dans quelle mesure ce discours est pertinent. La flexibilité sur le marché du travail, le système social, et les politiques actives menées sont examinées. Une attention particulière est portée à la réforme du marché du travail de 1993, qui est censée avoir contribué à la très forte baisse du chômage qui s’est produite au Danemark depuis 1994.

Mots-clé : Flexi-sécurité, chômage, marché du travail

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Abstract
During the last years, there has been a growing interest for the Danish “flexicurity” system all over Europe. Following the European Commission, the subtle combination of flexibility and security chosen by the Danes would even be a matrix of inspiration for the reform of the European labour markets.

This paper analyses the core elements of the Danish “model” to determine whether these views are relevant. The flexible labour market, the generous welfare system, and the active labour market policy are examined. We focus on the 1993 labour market reform, which is supposed to have triggered the remarkable decrease of unemployment that took place in Denmark since 1994.

Keywords: Flexicurity, unemployment, labour market

JEL: J40, J48, J50, J80
I. Introduction

During the last decade, there has been a growing interest all over Europe for the Danish “model” of flexicurity. Since 1995 and the praise of the Danish job strategy by the OECD, the idea that Denmark would be an example to follow when reforming labour markets has become widespread amongst politicians and economists. For example, all latest OECD annual economic and employment outlooks (OECD (2004a, 2004b, 2005a, 2005b, 2006) refer to the Danish case as one of the most commendable examples for other countries. The European Commission is also involved in this widespread view, since it refers, explicitly as well as implicitly, to the Danish example as desirable matrix for the European employment strategy.

The first document to refer to the Danish “flexicurity model” as an example to follow was the 1993 Delors White Paper. Since then, the references to flexicurity are multiple in the documents edited by the European Commission. An example of this can be found in the 23 “integrated guidelines for growth and jobs (2005-2008)1” put forward by European Commission. One of the eight guidelines dedicated to employment is explicitly to “promote flexibility combined with employment security and reduce labour market segmentation” (guideline 21).

That enthusiasm may be encouraged by the fact that the Danish model is often presented, in the economic literature, as an accurate answer to what Wilhagen and Tros (2004) call a “double bind” that all countries, in the current context of globalization, are supposed to face. On the one hand, they have to meet the calls for more flexibility stemming from the employers, in order to face up the challenges of the world competition. On the other hand, there are strong demands for more security, coming from the employees and the populations. The Danish combination of security and flexibility, seen as a convincing and promising “success story”, would be the most optimal manner to reach both of these goals jointly.

Another reason of the international attention brought to the “Danish model” is the clear success met by the Danes in the fight against unemployment. The unemployment rate has decreased from 9.6 % in 1993 to 4.3 % in 20012, and this rate is oscillating around 5 % since 19973. In a context of persistent mass unemployment in many European countries, this reduction is noteworthy. All the same time, the Danish employment rate is stable, around 75 % of the active population. This is all the more remarkable than these successes in the fight against unemployment have not been obtained at the expense of other macroeconomic performances. First of all, there have been no inflationary pressures, neither on wages, nor on prices, during all the period through which the unemployment rate was reduced, and afterwards. The external balance of payment is also positive almost every year. Moreover,

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1 According to the European Commission’s website, the integrated guidelines for growth and jobs are intended to “bring together, in a single, coherent and simplified text, the Commission's recommendations on the Broad Economy Policy Guidelines (BEPGs) and the proposals on employment guidelines for the period 2005-2008. They are the principal policy instrument for developing and implementing the Lisbon Strategy.” Source: http://europa.eu.int/scadplus/leg/en/cha/c11323.htm

2 All unemployment figures given in this paper refer to the standard definition of unemployment, as given by the International Labour Organisation. The Danish definition of unemployment being less restrictive, the local Danish measures of unemployment are higher (by approximately 2 %). This is very unusual: generally, the national definitions are more restrictive (as in the case of the Netherlands for example).

3 The unemployment rate was 4.8 % in 2005. Source: OECD (2006).
whereas Denmark is one of the countries in the world where the public expenditure as a percentage of GDP is one of the highest\(^4\), the surpluses for public budgets are raising almost every year. Last, even if Denmark has chosen to remain out of the Euro zone\(^5\), all the criteria of the “Stability and Growth Pact” are met.

Therefore, it might be worth taking a closer look at the Danish labour market system to examine its core elements. Are there “Danish recipes” that could, as a growing number of discourses suggest, be exported? This paper intends to shed some light on these issues.

For doing so, the remainder of the paper is organized as follows. Section II is about the Danish “golden triangle” and the 1993 labour market reform. The section examines the three components of the “golden triangle: the flexible labour market, the generous welfare system, and the active labour market policy. A close examination of the measures taken in 1993 was also necessary, as this reform is supposed to have triggered the remarkable decrease of unemployment that took place in Denmark since 1994\(^6\). Section III assesses the exportability of the Danish flexicurity system in other European countries. Short concluding remarks follow in section IV.

**II. The Danish “golden triangle” and the 1993 reform**

The Danish way of answering to the “double bind” outlined in the introduction is what many economists have called the “flexicurity nexus”. Obviously, the word “flexicurity” is the contraction of the words “flexibility” and “security.” It points out to forms of labour market regulations that provide security and flexibility in the same time. Even though some labour markets have been characterised by flexicurity for many years, the concept was first coined and gained wide recognition in the mid-1990s. Following Andersen and Mailand (2005, p9), “this is probably no coincidence since the concept of flexicurity to a large extent matches the ambitions expressed in the Delors White Paper on growth, competition and employment from 1993 and the European Employment Strategy to create an economy that is both efficient and competitive, but at the same time characterised by high employment, social security and inclusion.”

The definitions of “flexicurity” vary amongst authors. Wilhagen and Tros (2004, p4) define flexicurity as “a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of the labour markets, work organisation and labour relations on the one hand, and to enhance security – employment security and social security – notably for weak groups in and outside the labour market on the other hand.” According to this definition, two conditions must be fulfilled to be able to talk about “flexicurity”. Firstly, flexibility and security must be the result of deliberate and coordinated efforts, rather than isolate initiatives or chance. Secondly, flexicurity must also include disadvantaged groups on the labour market, and should not focus exclusively on the labour market “insiders.”

\(^4\) In 2003, the share of the public expenditure as a percentage of the GDP was 56 %, the highest in the world just after Sweden (58 %). Source: OECD, 2004b.

\(^5\) Denmark, in a September 2000 referendum, reconfirmed its decision not to join the 12 other EU members in the Euro-Zone. Nevertheless, the Danish currency remains pegged to the Euro by the “ERMII” mechanism. Whereas currencies in ERM II are allowed to float within a range of \(\pm 15\%\) with respect to a central rate against the euro, in the case of the Krone, the Danish central bank keeps the exchange rate within the narrower range of \(\pm 2.25\%\) against the central rate of EUR 1 = DKK 7.460 38. The Danish central bank is independent by long standing tradition, as set out in the “Danmarks Nationalbank act” of 1936.

\(^6\) Unemployment peaked in early 1994 and did fall continuously until 2001.
In the Danish case, the key elements of the flexicurity system can be summarized by the “golden triangle” devised by Madsen (2002) (see figure 1). The golden triangle outlines the combination of three elements: a very flexible labour market, an active labour market policy, and a generous welfare system. In figure 1, the arrows correspond to flows of persons between different positions within the labour market, the welfare system and the labour market programmes. The two arrows linking the labour market and the welfare system represent the fact that around a quarter of the people in work are affected by unemployment every year, but that the great majority of these people find a new job very quickly. The other arrows show that the people who do not go back rapidly into employment enter the active labour market programs, which helps most of them finding another job.

We now turn to a closer examination of each of the three main elements of the Danish “golden triangle”: the flexible labour market, the generous welfare system, and the active labour market policy. The 1993 labour market reform is then analysed.

A. A very flexible labour market

All studies led on flexibility in the Danish case think along the same lines to say that flexibility, in Denmark, is very high. The Danish form of flexibility can be characterized mainly as a form of external numerical flexibility. This means that, for employers, it is very easy to hire and fire employees.

This external numerical flexibility is the expression of the very low level of regulation of the labour markets. An account of this low level of regulation is given by the indexes of flexibility computed in a recent study published by the World Bank (2003). The main figures computed by the World Bank concerning the EU countries are summarized in table 1. Amongst all members of the European Union, including the latest countries that have joined the Union, Denmark has top rankings for all criteria computed by the international financial institution. Denmark is ranked second for its flexibility of hiring; first for its conditions of employment; and third considering the flexibility of firing. The “employment law” column, which summarizes the three previous criteria, clearly shows that, on the basis of this evaluation, the Danish labour market is the most flexible amongst the EU member states. Anyway, the classification established by the World Bank is much broader that the simple European Union: 130 countries from all around the world are included in it. Considering the complete classification, the Danish labour market is ranked as the third most flexible one in the world. Denmark has the same score as Malaysia, and is ranked just behind the United States and Singapore.

Another account of this high degree of flexibility is given by the OECD (2004a). Since the 1990’s, the organization computes Employment Protection Legislation (EPL) indexes for its member countries. For each country, the EPL index is supposed to give a measure not only of relevant legislation on the labour market, but also of the collective agreements and other contractual relationships, as well as the judiciary practices. According to this index (see table 7)

7 Nevertheless, internal numerical flexibility (working hours, overtime, part-time work, etc.); functional flexibility (multi-employability, flexible organization of work); as well as wage flexibility (performance or result-based pay) are also present on the Danish labour market. See Andersen and Mailand (2005) for a close study of the forms of flexibility at work in the Danish labour market.

8 The firings take place within agreed rules which prevent the firings to be arbitrary. The rules are expressed in terms of “no work” and a reasonable time of working, depending on for how long people have been employed. These rules differ amongst blue collars and white collars.
2), Denmark was, in 2003, clearly one of the countries with the lowest employment legislation level in the whole OECD. The country is ranked eleventh considering the index as a whole. What explains this difference with the World Bank classification is that the OECD study takes into account the degree of protection of permanent worker, which the World Bank study does not. This degree is higher in Denmark than in the great majority of the other “flexible” countries because of the strength of the Danish unions.

The rankings of the World Bank and the OECD, beyond their differences, reflect some important characteristics of the Danish labour market: a very short notice of termination, relatively long trial periods, and low compensations for dismissals.

Unsurprisingly, the result of the flexible legislation on the labour market is a high degree of job mobility: on average, the worker turnover is stable, around 30 % a year, and the level of job turnover (job creations and destructions) has been estimated around 12 % a year (Madsen (2002)). Moreover, 20 to 25 % of the workforce is affected by unemployment every year, but the majority returns to employment very quickly. Following Auer and Cases (2003), the mean tenure is also very low, since it reaches 8,3 years, a figure very close to the mean tenure in the United Kingdom (8,2 years). Another result of this flexibility is what Schumpeter would have called a high pace process of “creative destruction”: around 250 000 jobs disappear every year, but a similar number of jobs are created (Andersen and Mailand (2005)).
A key aspect of the labour market helping explain the high degree of flexibility is that the state intervention in the labour market is very limited, and that the system is managed by the “social partners”, that is, by the employers’ organisations and the labour unions. In the Danish system, there is almost no work legislation and the agreements are discussed by the employers and the labour unions at a rather decentralized level. In the bargaining process, the intervention of the state is presented as a threat if the partners do not come to an agreement: if the state has to intervene, the unions as well as the employers’ organizations will have to accept the legislation.

This limited intervention of the state is possible because labour unions are very representative of the workers: 80 % of the working population is unionized, which gives the main Danish labour union, LO (Landsorganisationen i Danmark), a strong bargaining power. The main employers’ organisation, DA (Dansk Arbejdsgiverforening) is also representative, and has also a genuine bargaining power.

It is important to insist here that the flexibility of the Danish labour market is by no means new. Indeed, as outlined by Andersen and Mailand (2005, p.12), “over the past 50 years, there have been no significant changes in the Danish rules and regulations on dismissals.” And looking at the figures, the main characteristics of the labour market as well as the flexibility indicators have been very stable over time.

A last aspect concerning this flexibility is worth to be outlined. In many countries, a degree of flexibility on the labour market as high as the Danish one would lead the employees to a widespread feeling of insecurity. This is not the case in Denmark. On the contrary, all surveys on that subject conclude that, in general, the Danes find that their job is secure. The feeling of job insecurity is even lower in Denmark than in other European countries (see for example OECD (1997)).

Many reasons may help explain this rather paradoxical result. Barbier and Lindley (2002) argue that, in countries that are not Latin ones, such situations of flexibility are not necessarily perceived as being precarious. In other words, whereas same situations would be perceived as precarious in Latin countries, it is not the case in Denmark for mentality reasons. Another explanation of the feeling of security of the Danes may be that most of them go back into employment rather quickly when they loose their jobs. Moreover, arbitrary firing is not socially accepted, and the relatively generous welfare system provides security.

B. A relatively generous welfare system, that provides security

The relative generosity of the Danish welfare system is seen by the Danes as a counterpart of the high degree of flexibility outlined above. Without that welfare system, the employees as well as the trade unions would be less prone to accept such a high degree of flexibility.

The security provided to the workers mainly takes the form of the unemployment insurance system, which is run principally by “private”, but state-funded, insurance funds. The great majority of these funds are trade union related. Despite of the fact the membership of these insurance funds is optional, the overwhelming majority of workers subscribe to them.

When getting unemployed, the members of these funds receive at the most 90 % of their previous income during the previous 12 weeks, in the form of unemployment benefits. The level of the unemployment benefit varies with the level of the previous wage level.
Nevertheless, a ceiling is set at 400 euros a week, and nearly all previous full time workers, when they become unemployed, get 400 euros. Only the low paid workers have a reduced benefit because of the maximum set at 90 % of previous incomings. Contrarily to what happens in most of the benefit systems in other countries, there is no waiting period in the Danish case: unemployment benefits can be claimed from the first day of unemployment on. The duration of the compensation period is four years, and the compensation level is stable with time, which means that there is no decrease or increase of the benefits.

From 1993 and up to 2003, there were two periods for the unemployed. During the first months of unemployment (the “passive period”), the unemployed had no direct obligation to be involved into the active labour market program. When this period was over, a mandatory full-time activation was proposed (during the “active period”). Since July 1st, 2003, the rules have changed and the mandatory full-time activation can be proposed from the first day on unemployment on.

To be eligible for this system, a person must have worked 52 weeks during the last 36 months. For part-time workers, the required period is 34 weeks. For the persons who do not meet these conditions, or for those who did not subscribe to the insurance system, there are other compensation systems, mainly city-based. These compensation systems are far less generous than the one run by the insurance funds. The loss of income for the average production worker after one year of unemployment is estimated by Barbier (2005a) around 60 % in 2001.

Last, the welfare system also helps living the people who, for one reason or another, are out of the labour force. These people represent around one quarter of the Danes between 18 and 64 years, and are helped in multiple forms, amongst which social aid.

As a whole, the welfare system prevents a large number of Danes from falling into poverty. A clear account of that is given by the risk rate of poverty computed by Eurostat (2005), the statistical office of the European Communities. Indeed, following Eurostat, the risk rate of poverty before social transfers in Denmark was 29 % in 2001, which is relatively high as compared to the other developed countries. After social transfers, that risk falls to 10 %, which is a bit lower than estimated risk for most of the other European countries.

C. An intensive labour market policy

The intensive labour market policy can be seen as a counterpart of both flexibility and security. It is a counterpart of the high degree of flexibility on the labour market insofar as the active labour market policy is intended to help the Danes finding jobs more quickly when their lose their previous one. The “counterpart” aspect of the security provided by the relatively generous welfare system is the duty to search actively a job and to accept to be helped for that by the institutions in charge of the labour market policy. This is not too

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9 Eurostat (2005) defines the risk rate of poverty before social transfers as the proportion of persons whose equivalent disposable income before social transfers is below the threshold of poverty risk, set at 60 % of the equivalent median national disposable income (after social transfers). The retirement and survival pensions are included in the income before transfers and not in the social transfers.

10 Eurostat (2005) defines the risk rate of poverty after transfers as the proportion of persons whose equivalent disposable income is below the threshold of poverty risk, set at 60 % of the equivalent median national disposable income.
difficult for the Danes, as it is seen by the vast majority of them as a crucial element of the “social contract”.

The figures of the expenses dedicated to the employment policy are very significant as to how the Danes see employment as a top-level priority. During the last years, the share of labour market policy in the GDP in Denmark goes constantly around 4.5 %, which is the highest in the world, far beyond all other countries. Amongst these expenses in the labour market, the active measures represent around 40 %, and the percentage of the GDP dedicated to these measures (around 1.5% of the GDP) has also been the highest in the world during the past thirteen years.

Two main explicit functions are assigned to the active labour market expenses. Firstly, they are supposed to increase the employability for the unemployed who do not return to employment quickly, mainly through training programs. Secondly, by checking their availability for work, the active labour market policy is intended to push the unemployed to search for jobs actively. Another function of the labour market policy is non-explicit: it consists in helping to create jobs by subsidising them under various disguises.

The key figures concerning the labour market policy expenses are given in table 3. The Danish active labour market policy expenditure in 2004 represents 1.83 % of the GDP, whereas it is 1.24 % in Sweden, 1.14 % in Germany, 0.97 % in France and much more lower in more “liberal” economies, since the figure drops to 0.52 % for the United Kingdom and even to 0.16 % in the United States.
Can the Danish model of “flexicurity” be a matrix ...

Amongst the active labour market expenses, the most important budget item is the training programs for the unemployed, and for the workers who may potentially loose their jobs: Denmark dedicated 0.54 % of the of GDP to these programs in 2004, whereas the same figure is 0.36 % in Germany, 0.35 % in Sweden, 0.31 % in France, and drops to 0.13 % in the UK and even 0.05 % in the United States. Therefore, training programs for the unemployed and for people who may become unemployed is an important part of the explanation of the Danish “success story” in the field of unemployment. Another illustration of this important aspect of the Danish case is given by a survey lead in early 2003 in the EU-15 plus Norway and Iceland. This survey outlines that half the Danish active population said to have taken part in supplementary training or education over the past 12 months, on a voluntary basis (see Andersen and Mailand (2005)).

These training expenses can be seen as result of a political and societal will to refuse wages inequalities: the Danish governments and population do not want the open the salary

Table 3: public expenditure in labour market programmes (% of GDP) in 2004 (Denmark, France, Germany and Sweden), and 2003-2004 (United Kingdom and United States).

Source: OECD (2006)

<table>
<thead>
<tr>
<th>Program categories</th>
<th>Denmark</th>
<th>Sweden</th>
<th>Germany</th>
<th>France</th>
<th>U. K.</th>
<th>U.S.A</th>
</tr>
</thead>
<tbody>
<tr>
<td>PES(a) and administration</td>
<td>0.32</td>
<td>0.24</td>
<td>0.29</td>
<td>0.25</td>
<td>0.36</td>
<td>0.04</td>
</tr>
<tr>
<td>Training (b)</td>
<td>0.54</td>
<td>0.35</td>
<td>0.36</td>
<td>0.31</td>
<td>0.13</td>
<td>0.05</td>
</tr>
<tr>
<td>Employment incentives</td>
<td>0.46</td>
<td>0.19</td>
<td>0.09</td>
<td>0.10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Integration of the disabled</td>
<td>0.52</td>
<td>0.43</td>
<td>0.15</td>
<td>0.09</td>
<td>0.02</td>
<td>0.03</td>
</tr>
<tr>
<td>Direct job creation</td>
<td>-</td>
<td>-</td>
<td>0.13</td>
<td>0.23</td>
<td>-</td>
<td>0.01</td>
</tr>
<tr>
<td>Start-up incentives</td>
<td>-</td>
<td>0.03</td>
<td>0.13</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total active measures</strong></td>
<td>1.83</td>
<td>1.24</td>
<td>1.14</td>
<td>0.97</td>
<td>0.52</td>
<td>0.16</td>
</tr>
<tr>
<td>Out-of-work income maintenance and support</td>
<td>1.94</td>
<td>1.32</td>
<td>2.27</td>
<td>1.64</td>
<td>0.29</td>
<td>0.37</td>
</tr>
<tr>
<td>Early retirement (c)</td>
<td>0.72</td>
<td>-</td>
<td>0.04</td>
<td>0.08</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total passive measures</strong></td>
<td>2.66</td>
<td>1.32</td>
<td>2.31</td>
<td>1.72</td>
<td>0.29</td>
<td>0.37</td>
</tr>
<tr>
<td><strong>Total LMP expenditure</strong></td>
<td>4.49</td>
<td>2.56</td>
<td>3.45</td>
<td>2.69</td>
<td>0.81</td>
<td>0.53</td>
</tr>
</tbody>
</table>

(a) Public Employment Service

(b) In the Danish case, the Training expenses, as well as the employment incentives and the integration of the disabled, may be considered as wage subsidies in various disguises.

(c) The early retirements are counted as pensions in other countries, and could therefore be deducted from the passive labour market expenses in Denmark. Nevertheless, the OECD has chosen to include them in her database.

Table 3: public expenditure in labour market programmes (% of GDP) in 2004 (Denmark, France, Germany and Sweden), and 2003-2004 (United Kingdom and United States).

Source: OECD (2006)
range to the bottom. The training programs are viewed as an alternative and better solution to the unemployment of low skilled workers (Freyssinet, 2000).

An important remark to be made at this point is that flexibility and the welfare system have a long history in Denmark. The share of the passive measures in the GDP is nothing new neither because of the relatively generous welfare system. As for them, the active labour market programmes have a much more recent history: the active measures have gained ground throughout the last fifteen years, particularly since the 1993 labour market reform.

**D. The 1993 labour market reform**

The 1993 labour market reform, which came into force in January 1994, has been the subject of a lot of international attention, especially from the OECD and the European Commission. This is the case mainly because a spectacular reduction of the unemployment rate in Denmark was concomitant with its implementation.

The reform has been prepared and favoured by various factors. First, the results of all the previous active labour market policies were rather poor. Between 1979 and 1993, these policies consisted mainly in a program of job offers, training and support for the unemployed. The idea was to help them start in self-employment. Secondly, during the late 1980s and the 1990s, there were lots of discussions about the labour market. These discussions focused mainly on the negative consequences of passive and extensive employment schemes. Anyway, one of the outcomes of these discussions was that cuts in the unemployment benefit level were not politically feasible. These discussions led to the creation of the *tripartite Zeuthen committee*, who made a number of policy recommendations which were taken into account when designing the 1993 reform. Thirdly, there was an important rise of the unemployment rate at the beginning of the 1990’s. This put some pressure for action, and helped the new centre-left government to find broad support for a reform of the labour market.

The main elements of the 1993 labour market reform can be classified in three main categories: the reform of unemployment benefits and the active labour market policy, the reform of the Public Employment Service (PES), and the introduction of the paid leave schemes.

The reform of the PES mainly consisted in the decentralisation of policy implementation to regional labour market councils (which are assigned the role to adapt the programme to the local needs) and the reinforcement of tri-partite nature of the PES. The reform of the unemployment benefits and the active labour market policy consisted, as for it, in three measures: the introduction of a two-period benefit system, with an initial “passive period” (of four years) followed by an “activation period” (of three years); a change from a rule-based assistance system, for the long-term unemployed, to a system where individual needs are assessed; and the ending of the connection between vocational training and the unemployment benefit system (employment with a wage subsidy no longer increases the duration of the period for which the unemployed are eligible for unemployment benefits). Last, three paid leave schemes (childcare, education and sabbatical leave), for the employed persons as for the unemployed, were introduced. This introduction was supposed to encourage job rotation, while pushing momentarily out of the labour force a significant part of the

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11 The duration of the leaves could go up to one year.
population. Educational leave was initially compensated at 100 %, and the two other schemes at 80 % of the unemployment benefit rate.

Since 1994, many changes of the 1993 measures have been undertaken, amongst which the most important ones are the progressive reduction of the “passive period” as well as the “active” periods. Since July 1st, 2003, the passive period has been suppressed. This means that the unemployed can now be “activated” from their first day of unemployment on. Today, the length of the “active” period is four years. The possibility for taking leaves has also been progressively limited. In 2001, the sabbatical and educational leave schemes have even been abolished, but parental leave still exists at a reduced scale. In 2003 and 2005, the rights for maternity leaves have even been extended. Last, in 2003, a new labour market reform has reduced the number of training possibilities for the unemployed, and the active labour market policy insists more on the guidance and contact meetings and on subsidised job training. Nevertheless, the increase of the unemployment rate and the problem of outsourcing have forced the centre-right government to expand the training programs, mainly for low-skilled and unskilled workers.

In all cases, assessing the precise impact of the 1993 labour market reform on unemployment may be very tricky, if not impossible. A first difficulty is to determine which measures have had a significant effect on unemployment, and which ones have not. As the 1993 “package” contains multiple decisions, it is difficult to isolate the effects of a particular measure (for example, the introduction of the “active period”). Another complication is due to the fact that the 1993 reform has been undertaken in a particular economic and social context: as outlined before, flexibility, security, and the social dialogue were already deeply rooted in Denmark. This context might have played a role in the success of the 1993 measures. Last, the progressive implementation of labour market reforms were accompanied, from 1993 up to 1998 at least, and again from 2004 on, by a significant internal demand stimulation policy. The implementation and the continuation of this macroeconomic policy have undeniably played a role in the spectacular reduction of the unemployment rate (see Fitoussi and Passet, 2000; Madsen, 2002; Jespersen and Lang, 2006).

III. Can the “Danish model” be a matrix for the European employment strategy?

Having now the whole picture in mind, it might be tempting to try to extrapolate the Danish “good practices” to other European countries. This is what the European Commission and the OECD recommend. This may also be seen as a matter of common sense, in a context of mass unemployment in many European countries. Nevertheless, this suggestion is of limited interest, for many reasons.

First of all, it is useful to recall that, as outlined above, flexibility is by no means a new characteristic of the Danish labour market: during the last fifty years, there has been no significant change in this field. The only change to the Danish employment protection rules brought during the last fifty years are related to the temporary agency regulations: the limitations concerning the frequency of renewals, and on the duration of temporary contacts with these agencies, have been suppressed, and more employment categories have been allowed to use temporary contracts. As the use of temporary contracts in Denmark is limited (about 8% of total employment; see Andersen and Svarer (2006, p4)), the relaxation of these rules may, at best, have had a limited effect on unemployment. Just as flexibility, the generous welfare system has also a long history. This history starts in the second half of the twentieth
Can the Danish model of “flexicurity” be a matrix ...

century. This means that flexibility and welfare system were in a configuration close to the present one in the 1980’s and at the beginning of the 1990’s, where the unemployment rate in Denmark was comparable to the one of the core European countries. On the whole, all that can be said concerning the recent changes is that the active labour market measures have gained ground throughout the last fifteen years, particularly since the 1993 reform.

Nevertheless, the conclusion of these considerations should not be that the “active labour market policy” led in Denmark since 1993 have triggered the spectacular decrease of unemployment that has taken place in Denmark during the second part of the 1990’s. As outlined above, it is difficult to assess the relative impact of the various measures taken in 1993, and the amount of the unemployment reduction that is due to the relatively expansionary budget policies. The strong societal and institutional consistency of the Danish system must also be evoked. Moreover, there is another side of the Danish coin that may be worth a look.

A. The other side of the Danish coin

Many by-products of the Danish system are far less well known than the flexicurity system, but can be seen as important by-product of it.

First, the labour market leaves a significant range of the population by the wayside: no less than twenty percent of the Danish population is living on transfers, and large groups are not integrated into the labour market. One quarter the adults aged 15-66, that is, 800 000 persons, are out of the labour force. A large part of them could hardly go back to the active working life, as they have been excluded from work for various reasons. As outlined by Larsen (2005, p.9), “even though Danish market policy in the 1990’s can only be described as a success story in terms of solving structural problems and combating unemployment in general, efforts to re-integrate heavily marginalized groups and incorporate refugees and immigrants into the labour market have been far less successful.”

Secondly, the burden of the system rests almost exclusively on consumers and households, since they are paying the great majority of taxes, whereas employers and firms are almost exempted. The result of this, along with the need for financing the important Danish public sector, is that the low budget families pay 9 to 44 % of their income in taxes, whereas middle class families pay 44 to 62 %. This burden on the households’ budget is even worsened by the level of the tax on value-added, which is 25 %. For many European countries, which are desperately in the need for growth, introducing such high rates of taxes would imply considerable risks of recession if not of slump, for the next decades12.

Thirdly, some Danish macroeconomic performances are rather worrying. For example, Denmark is, with New Zealand, the only OECD country to exhibit negative saving ratios, and these ratios have been constantly negative since 1995 (OECD, 2005b). These negative ratios might be due to the will of households to uphold their consumption, in a context of strict wage moderation, and, therefore, a by-product of the Danish political and institutional arrangements.

12 Nevertheless, on the whole, total taxes in Denmark are not much higher than in Germany or the Netherlands.
As these characteristics are some of the by-products of the system as a whole, importing the Danish recipes may also mean taking the risk to import some of these undesirable side-effects.

**B. A strong societal and institutional consistency**

Moreover, flexicurity cannot be considered in isolation from the other aspects of the Danish system as a whole. This system has a strong internal consistency, which is part of the explanation of the success of the 1993 reform. Therefore, touching at one of the elements of the system may lead to the destabilization of the whole structure.

First, an important characteristic of this small-side open economy is the considerable importance of small and medium-sized businesses, which hire most of the employed people. This importance helps explain why work flexibility is more needed than in economies where medium-size of big-size business are the most important. It also helps understanding why it is relevant that the bargaining sessions between the powerful labour unions and employers’ organizations take place at a rather decentralized level.

Another Danish particular characteristic is the size of the Danish public sector, which is one of the highest in the world: thirty percent of the Danes are employed by the state. In a world where the mood is rather to decrease the size of the public sector, raising public employment to 30 % may be difficult a difficult task is some countries. This all the more relevant than the Commission as well as the OECD are rather prone to recommend a reduction of the size of the public sector.

Moreover, Denmark is characterized by a long and strong tradition of social consensus. The regulation is conducted by the “social partners, in a context where work legislation is very limited. Of course, this does not mean that conflicts and strikes are absent in Denmark: as elsewhere, the interests of the employers’ organisations and of the labour unions are divergent. But there is a strong confidence in the social consensus that eases the bargaining process, as well as an egalitarian tradition that leads social partners to avoid any explosion of wage inequalities or strong disparities in average working times. On average, the wages disparities are lower than in France (Barbier 2005a). The average annual number of hours actually worked per person in employment is roughly the same, one of the lowest in the OECD countries.

Last, the Danish system is the outcome of a long historical process. The roots of this process can be traced back up to 1899, where the labour market parties entered into an agreement, the “September Compromise.” This agreement focused on how to solve labour market conflicts, and laid the foundations of the dialogue and regulations between the employers’ organisations and the labour unions. The current flexicurity system is the outcome of the subsequent history. As outlined by Larsen (2005, p.6) “the Danish situation is not the result of a deliberate TLM or flexicurity strategy. Instead, Danish labour market policy is based on practical experience and the outcome of power struggles between actors that cultivate rational, “matter-of-fact” approaches to policy making.” As such, this history of social consensus and social dialogue cannot be exported or transplanted overnight.

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13 In 2004, the average number of annual hours actually worked per person in employment was 1441 for France and 1454 in the case of Denmark (OECD 2005a).

14 Transitional Labour Market.
Consequently, it is difficult to import one of the aspects of the Danish “model” or the other. The functioning of the system is strongly linked to its consistency as a whole, and successes or failures of the reforms are due to ability to fit to the picture.

V. Concluding remarks

Unquestionably, the Danish flexicurity “model” is interesting and stimulating. It is also and undeniable “success story” in the field of employment. Nevertheless, as outlined in this paper, there is another side of the Danish coin, *inter alia*, in terms of exclusion of some categories of the population and in terms of taxation. That aspect, which may be the counterpart of the Danish regulations, is sometimes neglected by the analyses of the Danish case.

Moreover, the spectacular reduction of the unemployment rate that has taken place during the 1990’s cannot be seen as the result of changes in one of the elements of the “golden triangle” rather than in the other. Even if the 1993 reform has brought some important changes concerning the active labour market policy (the flexible labour market system and the welfare system being by no means new), the Danish system must be understood as a whole, having a strong societal and institutional consistency, which is the result of a long history of institutional arrangements. The efficient public sector, as well as the demand management policies led since 1993, has also played a role.

For all those reasons, a clear conclusion of this analysis is that it might not be a good idea to try to transplant some aspects of the Danish system or the others to other European countries. A very particular combination of institutional, historical, and economic factors is needed to make the Danish “miracle” possible. Thus, there are good reasons to believe that the graft will not take anywhere else.

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Can the Danish model of “flexicurity” be a matrix ...


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