Opinion of the European Economic and Social Committee on Flexicurity: the case of Denmark

(2006/C 195/12)

On 14 July 2005 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an opinion on Flexicurity: the case of Denmark.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 28 April 2006. The rapporteur was Ms Vium.

At its 427th plenary session of 17 and 18 May 2006 (meeting of 17 May), the European Economic and Social Committee adopted the following opinion by 98 votes to one, with one abstention:

1. Conclusions and recommendations — flexicurity: the case of Denmark

1.1 Danish-style flexicurity appears to provide an example of how to achieve economic growth, a high level of employment and sound public finances in a socially balanced way. This development is consistent with the Lisbon process, which is designed to secure a high level of employment and sustainable growth and social welfare.

1.2 Danish-style flexicurity, the hallmarks of which are a mobile labour market, achieved through elements of social security and an active labour-market and training policy, does, it would appear, help make the country more competitive. Together with other facets of Danish society, flexicurity has given the Danish labour market a strength and a flexibility that equip the country well to face the challenges of the future. A high level of employment, high unemployment benefits and a sense of optimism mean that both employers and employees accept the uncertainties and drawbacks inherent in the system, given what each group gets in return.

1.3 The key to understanding Danish-style flexicurity is that flexibility and security are not necessarily mutually exclusive. Having stable and secure labour relations and a motivated workforce can be an employer’s interest, while flexible working hours, work organisation and payment schemes can be in the interest of employees.

1.4 In the face of globalisation and the fact of jobs being relocated abroad, flexicurity also creates for the people a high degree of economic and social security by means of the following paradigm shifts: ‘security of employment rather than job security’ and ‘new personal opportunities brought about by a readiness to change whilst accepting limited risks’. It is quite true that individuals do risk losing their job but the social security network ensures that they have enough to live on in the short term, while, in the longer run, their chances of finding a new job are enhanced through active labour market measures, combined with high levels of employment.

1.5 Danish-style flexicurity means low job security for individual workers, who face the prospect of losing their job several times during the course of their working life. Despite this, the in-built safeguards of the flexicurity system — thanks, on the one hand, to high unemployment benefits funded using public money and the tax contributions of the whole population and, on the other hand, to employment security — mean that Danes do generally feel safe and content (see Appendix 2).

1.6 If we consider Danish-style flexicurity within a European context, it is obviously impossible to copy the system blanket-fashion, given the cultural, structural and economic differences involved. That said, some general features may be considered for adoption as a political strategy in other Member States, particularly in places where social capital — understood as the full gamut of standards and networks, combined with a relationship of trust among individuals and among organisations — has developed along similar lines to Denmark, including a tradition of cooperation between the government and the social partners and a readiness by the people to embrace change. Geographical flexibility can, however, also give rise to very weighty problems for families, partnerships and children’s school and educational careers. This is particularly the case in large countries and federal states.

1.7 Broadly speaking, the idea behind flexicurity is that a combination of worker flexibility and security can, together, safeguard social security and competitiveness. Danish-style flexicurity provides security through a high level of unemployment benefit (and transfer payments to cover other social contingencies), and flexibility through liberal dismissal rules, including, for instance, short periods of notice. Alongside social security and a high degree of mobility, importance is also placed on an active labour market policy that ensures that people are actually available for work and are honing their job skills. Danish labour market policy, therefore, comprises both incentives and sanctions, including, for instance, compulsory employment support (known as ‘activation’), which, however, primarily involves top-quality upskilling schemes. Active labour market policy is vital to any labour market designed to function effectively with high levels of unemployment benefit.

1.8 That said, however, Danish-style flexicurity cannot be seen in isolation from the overall context of the welfare state and a strong organisational set-up. The way in which the Danish labour market operates is contingent on a range of other social factors. This applies, for instance, to the key role of...
the social partners in political decision-making and to the application of labour-market and training policies, the broad-based publicly funded welfare system, the skills level of the population, and the macroeconomic policy mix that has been put in place over the last few decades.

1.9 The social partners have had a key role to play in the development of Danish-style flexicurity, both in decision-making and in implementation in areas such as training policy and labour-market structural reforms. In a number of fields, the development is based on agreements between the social partners, for instance the introduction of private, labour-market-related pensions. The social partners’ role is the product of historical development, and also of their high level of organisation. Thanks to their input, it has been possible to arrive at creative solutions enjoying broad acceptance. To have strong input, however, the social partners and other civil-society players need to be adaptable, willing to work together and ready to address real-life situations in new and broad-based ways. Greater involvement and input from the social partners can thus boost society’s capacity to compete and adapt. In these processes, support, cooperation and a critical input from other civil society organisations, such as social players and further education bodies based on associations, is also of importance.

1.10 A high level of unemployment benefit requires a high level of skills among the population at large. Otherwise, many people would be unable to find jobs in which they earned more than unemployment benefit. A high level of skills and a readiness to adapt — including among those with the least formal training — is a key reason for the success of the Danish flexicurity system.

1.11 In the second half of the 1990s, when Denmark carried through an extensive programme of structural reforms, moves to tighten up the labour market were accompanied by an expansive economic policy that boosted both growth and employment. Over and above the income security provided by the high level of unemployment benefits, Denmark also seeks to give its people employment security. No-one has any guarantee that they will keep their current position, but the chances of finding a new job are very good thanks to the public support services. Moreover, it is easier to implement — and secure backing for — structural reforms undertaken in an atmosphere of optimism and employment-friendly growth. The Danish flexicurity system is thus based on a macroeconomic policy-mix that fosters growth and employment.

1.12 Danish-style flexicurity is subject to constant discussion and change. As a system, it has both advantages and drawbacks, and, despite the fact that flexibility, security and an active labour market policy are undoubtedly interlinked, there is an ongoing debate about how to achieve the right balance between these elements.

1.12.1 High tax revenue is a sine qua non of the Danish flexicurity system and other factors of relevance to the way the labour market works. For instance, public expenditure on labour market policies was 4.4 % of GDP in 2003 — a European record (\(^1\)). On the one hand, the Danish people are prepared to accept the high tax burden of around 49 % of GDP, yet, on the other, tax is a constant subject of debate and future cuts must be expected in the tax on labour. The high tax burden is explained, in part, however, by the high level of employment, which, in itself, has a positive impact on public finances. Boosting employment makes for further increases in tax revenue.

1.13 The importance of Danish-style flexicurity to the European Union lies in the readiness to engage in a proactive adjustment to new realities, promoted by the flexicurity approach; this adjustment has been brought about by a balanced socio-economic paradigm shift, carefully negotiated between the stakeholders, whilst fully respecting the basic values set out in the European social model.

2. The competitiveness of the Danish system

2.1 Denmark has stable growth and sound public finances. From 2000 to 2005, for instance, the average growth rate was 1.7 %, with an average employment rate of 77.5 % and an average general government balance surplus of 1.4 % of GDP. Overall public debt was running at 42.7 % of GDP in 2004, with a general government balance surplus of 2.8 % of GDP. The general government surplus is due, among other things, to record employment levels, providing high levels of income tax revenue.

2.2 The Danish labour market is subject to a very high turnover, with more than 10 % of all jobs disappearing each year and a similar number being created. Some 30 % of workers change jobs every year and Danish workers have the second lowest average length of service of any country in the EU after the UK. This must be seen in the light both of the existing rules and of the structure of the Danish economy, with its high numbers of SMEs.

2.3 The impact of this policy mix of macroeconomic stimulation and the structural reforms undertaken by Denmark in areas like the labour market can also be illustrated using the Phillips curve, which shows the relationship between unemployment and rising wage costs. As the Danish curve given in Appendix 1 makes clear, it has been possible to cut unemployment substantially since 1993 without incurring high wage inflation; the Phillips curve has remained broadly horizontal over this period. Labour-market and training activities mitigate against the adjustment problems and obstacles that can otherwise lead to wage and price increases.
2.4 Denmark typically comes top in studies of which countries are attractive to invest in. It also ranked first in a March 2005 report by the Economic Intelligence Unit. Appendix 2 shows how Denmark shapes up against the other EU countries on a range of different parameters.

3. Danish-style flexicurity

3.1 The term ‘flexicurity’ has become very popular over the past few years, although what is meant by it is not always clear, and varies from one country to another.

3.2 In the Danish version, labour market arrangements are seen as the ‘golden triangle’ between flexible hiring rules (leading to a high degree of numerical flexibility), a generous support system (providing social security) and strong activation and training measures (which both motivate the unemployed to look for work and give them the skills they need to re-enter the open labour market).

3.2.1 The Danish flexicurity system helps ensure that the jobs that are created are of a high calibre and involve decent work. A corollary of high unemployment benefits is that what are deemed ‘acceptable’ wage rates are also high. As a result, Danes do earn enough to live on. On the formal labour market, therefore, any signs of the emergence of a ‘working poor’ are few and far between — including among Danes of other ethnic origins.

3.3 This golden triangle is illustrated below. The Danish system of benefits and active labour market policy is briefly examined in Appendix 3.

The key features of the Danish flexicurity system:

- High mobility
  - Many job openings
  - 30% switch jobs yearly
  - 10% new jobs created annually
  - 10% of jobs disappear each year

- Generous support scheme
  - 150,000 receive support
  - High wage-replacement levels
  - Payable for 4 years

- Active labour market and training policy
  - Better skills
  - High-quality job offers
  - Availability tests

3.4 However, flexibility on the Danish labour market is multi-facetted and cannot be achieved through liberal firing rules alone; it also requires working-time flexibility whereby, under the relevant agreements, working time may be calculated on a yearly basis and job-sharing can be introduced for relatively short periods. More provision in collective agreements for setting final wage rates at company level also ensures a certain degree of wage flexibility. Flexibility is also generated by the breadth of workers’ skills; people are independent, willing to change and aware of their responsibilities: as such, they are quickly able to adapt to shifts in production or to a new job.
3.5 The security of the Danish labour market is not due solely to the relatively high level of unemployment support that is provided. A measure of employment security is also given by the high employment and turnover rate on the labour market. Employment security is further backed up by a broad raft of supplementary and further training measures which are managed and administered jointly by the authorities and the social partners. Moreover, Danish society offers families a degree of security to combine family life and work through attractive arrangements for paternity/maternity leave, childcare facilities etc.

3.6 The key to understanding what is meant by Danish-style flexicurity is that flexibility and security are not necessarily opposites. Traditionally, employers have wanted a more flexible labour market, clashing with workers’ desire for job security and high levels of economic compensation during periods of unemployment and sickness.

3.7 The concept of flexicurity breaks with this antagonism. Employers may be keen to have stable and secure working relationships and motivated staff, while workers may be similarly keen for flexible working time, flexible work organisation and flexible pay arrangements. These new kinds of labour markets can thus generate a new interplay between flexibility and security.

3.8 Within the labour market, the Danish flexicurity system combines the dynamism of a liberal market economy with the social security of a Scandinavian welfare state through universal public service and income equalisation. Seen in a broader perspective, this is one result of the political objective to give people opportunities in their working lives and to redistribute resources via public-sector budgets and activities. This in turn generates social cohesion through a strong policy of income equalisation and action to head off major social tensions. It also gives workers security to adapt and to cope with the flexibility of the system.

4. The role of the social partners

4.1 The social partners have traditionally played a key role in decision-making and administrative arrangements in labour-market and training policy. Their input has helped generate creative and balanced solutions to market and innovation difficulties and to equip the country well to adapt and develop in the ways demanded by globalisation. The social partners are, after all, in a position to assess any needs that may be reported and make any changes that may be necessary. Over time, close dialogue among the various stakeholders also generates social capital by boosting confidence, fostering responsibility and promoting mutual understanding.

4.2 The current situation has historical roots stretching back more than a century. The typically Danish labour-market model, for instance, has its roots in the 1899 ‘September compromise’ between the Danish Confederation of Trade Unions (LO — Landsorganisationen) and the Confederation of Danish Employers (DA — Dansk Arbejdsgiverforening), both of which had only recently been set up as nationwide organisations. This was the world’s first general agreement and has served as the framework for agreement and interplay between the social partners ever since.

4.2.1 Employers accepted the main trade union body as a negotiating partner, while employees accepted employers’ right to hire and fire — and thus their right to manage. This basic provision has helped form the liberal mindset that prevails in Denmark in relation to firing rules. Another key element of the September compromise was a commitment to good industrial relations for the duration of the agreement. The social partners’ central tenet of voluntary labour-market regulation and conflict-resolution by the partners themselves remained in place until as late as 2003. Only when the EU refused to recognise independent implementation of directives by the social partners, did additional legislation begin to be introduced in Denmark. Appendix 4 gives more information on the historical development of the social partners’ role and the establishment of the Danish model.

4.3 After many years of high inflation and highly volatile real-wage increases, the social partners recognised, from 1987/88 onwards, that agreements should also reflect overall socio-economic conditions. Of course, employers, workers and governments do have differing viewpoints in Denmark, but there is also a basic culture of dialogue and consensus that must be seen as part of social capital. The low power gaps that exist at every level of society help maintain this consensus culture.

4.4 In policy terms, Denmark has, since the 1960s, developed a comprehensive public system of vocational supplementary and further training for people both in and out of work. This has made the entire workforce more adaptable. Throughout the whole of the twentieth century, the social partners also had (and indeed still have) an important role to play in public decision-making and in putting those decisions into practice. In contrast to developments in most other European countries, this role was even strengthened from 1993/94 onwards.

4.5 There has been a substantive shift in labour market policy, which used to be regulatory in approach, but is now needs-based and tailored to providing individual solutions. The social partners — and the local authorities — became the key players in the fourteen regional labour market councils which were given both the powers and the public resources to put action on unemployment and regional labour market policy at the top of their list of priorities.

4.6 Over many years, therefore, the social partners have built up a broad, collective awareness of what it means to shoulder social responsibility, while the authorities have learnt to draw on their resources and influence. The social partners have unique information and knowledge about the labour market and can thus identify needs reliably and quickly. Through their corporatist input, they provide the authorities with free resources, and find creative solutions to joint problems through discussions and decision-making forums.
5. The right policy mix

5.1 To fully understand the Danish flexicurity system, it is important to consider the social context of which that system is a part. Moreover, economic policy and the public sector also have an impact on the workings of the labour market and, together, shape the elements that may be called 'the Danish model'. This interplay is illustrated in Appendix 7.

5.2 In the second half of the 1980s and the first half of the 1990s, the Danish economy was in crisis. Between 1987 and 1993, for instance, the average annual growth was running at 0.8%, while unemployment rose from 5% in 1987 to 9.6% in 1993. The crisis was the result, among other things, of the economic constraints that had been introduced in the wake of the big government deficits of the previous years.

5.3 From 1993 onwards, active labour market policy was being strengthened just at the time the economy was also being boosted by low interest rates and an expansive economic policy. As a result, at the start of the growth period from the mid-1990s onwards, the Danish public deficit was so big that the stability and growth pact rules, had they existed at the time, would not have been met. Property funding rules were also changed (allowing longer loan repayment periods and the possibility of refinancing), thereby giving people more disposable income. High growth, falling unemployment and burgeoning optimism made it easier for people to accept more stringent labour market rules.

5.4 The extra public spending was used, among other things, on major schemes to expand childcare cover so that women with small children were genuinely available for work.

5.5 The increased focus on labour market policies also meant more emphasis on training and further training, with the state providing massive support for further training measures for people both in and out of work. The support was given not only to fund training but also, to some extent, to offset loss of earnings. The number of training posts for young people was also increased at every level.

5.6 In broad terms, it has to be said that the Danish system, involving high levels of unemployment benefit and thus a high ‘acceptable’ wage, does require a skilled and productive workforce. If a large pool of low-skilled people is allowed to develop who are unable to match the wage levels obviously required by the high unemployment benefits, excessively high unemployment is bound to ensue.

5.7 From the mid-1990s onwards, an investment-based economic strategy was successfully introduced, with growth being generated through proactive reforms and investment in education and public services. Confidence in the future and a high degree of income security encourage consumers to buy and ensure a high level of domestic demand.

5.8 The current economic strategy was a response to the economic crisis Denmark experienced from 1987 onwards, when the government reduced the large public and balance-of-payments deficits through savings and cuts. The savings strategy did sort out the imbalances, but, in turn, resulted in low growth and increasingly high unemployment. The current strategy appears to safeguard growth and employment while balancing public finances and securing a sound balance-of-payments position. This, incidentally, is a combination unseen in Denmark since before the oil crises of the 1970s.

6. Current challenges

6.1 Even although Danish-style flexicurity has had positive results over the past few years, there are of course still challenges that need to be addressed.

6.2 Globalisation and technological change are, broadly speaking, putting pressure on the Danish labour market. Unskilled workers in particular are coming under pressure as they face competition from lower-wage countries and automated production.

6.2.1 So far, Denmark has dealt with this pressure by reducing the number of unskilled workers on the labour market, since more older unskilled workers are leaving the labour market than young ones entering it. As things stand, however, many young people do not receive skills training — something which, in the long run, may undermine the Danish flexicurity system. Thus, unless the supply of skilled workers is kept fairly much in sync with demand, public expenditure on unemployment benefits and other transfers will simply be too high.

6.2.2 Some firms in Denmark are closing and relocating all or part of their production operations to lower-wage countries. This is a challenge — especially in remote areas that are very sensitive to the closure of individual companies. The Danish labour market, which is structurally dominated by small and medium-sized enterprises, is, however, viewed as a dynamic entity, so that, instead of trying to hold onto these jobs, policymakers, working together with the social partners, are seeking to create new and more competitive ones.

6.3 The high degree of labour market turnover means that employers are less inclined to pay for further training as they do not know how long the staff will remain in employment. This applies in particular to the unskilled, since employers do more to keep and train hard-to-come-by specialist workers, and also because unskilled workers are not always motivated to engage in further training. For that reason, there is a comprehensive, publicly subsidised system of training and further training for both unskilled and skilled workers, with compulsory contributions from employers, since a well-trained...
workforce is vital to the workings of the Danish flexicurity system, and it is politically desirable to pursue a broad-based, proactive approach to upskilling.

6.4 Many immigrants find it difficult to gain a foothold on the Danish labour market, thereby also limiting their chances of integration. The labour market difficulties are due, among other things, to the fact that immigrant groups and their descendants do not have the skills required to attain Denmark’s high levels of unemployment benefit and wages. Immigrants and their descendants are, for instance, less well-educated than ethnic Danes; they have, on average, a lower participation rate on the labour market and suffer from higher unemployment than the rest of the population. Difficulties may be linguistic, social or educational.

6.4.1 This may be explained in part by cultural differences and ingrained habits. Experience shows that unemployment fluctuates more among these than among other groups. When unemployment is falling, for instance, employers are more inclined to explore new avenues and take on people from a different ethnic background. A high-employment, low-unemployment environment can thus, in itself, provide immigrants and their descendants with better access to work, without, however, solving the integration issue as a whole. Demographic developments mean that Danish jobs face having to open up more fully to immigrants over the coming years.

6.5 The Danish welfare model is underpinned by a high percentage of working women — in order both to provide the requisite public services and to maintain high tax revenues. On the one hand, this means that women are more economically independent, while, on the other, it presents challenges in terms of reconciling family life and work. Compared with many European countries, Denmark has made substantial progress in this area but there is still a long way to go to achieve, among other things, equal career opportunities for men and women.

6.6 The Danish system is expensive for the state, which pays a substantial proportion of the wage-replacement benefits to the unemployed. Spending on passive labour market policies, for instance, made up 2.7% of GDP in 2003 — an EU record. The funding of the Danish welfare society is set to come under pressure in future from a number of sides. To maintain welfare state funding without tax hikes requires higher employment rates among people of working age.

6.6.1 At around 49%, the Danish tax burden is among the highest in the EU, where the average is around 40%. Consumer taxation is particularly high, although the country does not top the list for tax on labour. Income tax is high and very progressive, but employers are not, broadly speaking, subject to social security charges. The Danish tax structure is set out in greater detail in Appendix 5. Because of globalisation, some tax revenue may come under pressure in the future.

6.6.2 Demographic developments mean a rise in the number of older people and a fall in the number of those who are economically active. This is due to the fact that the youth generations are small, the post-war generations are big, and people are also living longer. In the debate about possible reforms of the welfare society, labour market policy — including unemployment benefits — also comes into play. The Danish pension system is, however, to some extent ready to meet these changes (cf. Appendix 6). There may be a labour shortage and, since women, who constitute the labour reserve, are already to a large extent part of the workforce, new ways will have to be found of boosting employment. These may include raising the retirement age or increasing the numbers of immigrant workers with the requisite skills.

6.7 Around a quarter of the population of working age is without a job and in receipt of public support (for unemployment, ‘activation’, early retirement etc.) Around half of these people have withdrawn permanently from the labour market as a result of physical wear-and-tear, unemployment or of their own volition, while the other half are only temporarily out of employment. The fact that such people are given public support is a basic tenet of the welfare state, but this does represent a challenge for future welfare society funding. To safeguard the long-term funding of the welfare society, it is essential to bring down the percentage of the population leaving the labour market early.

6.8 Bit by bit, labour market policy is increasingly being regulated by EU rules and practice. Conditions on the Danish labour market have traditionally been a matter for the social partners themselves rather than for legislation. If EU rules become too detailed, there is a risk that public acceptance will dwindle and that developments will pull in a different direction from that desired by the social partners. The EU’s open method of coordination appears to offer a way to allow traditional Danish practice to continue to develop, while synchronising European employment and labour market policy.


The President
of the European Economic and Social Committee
Anne-Marie SIGMUND