

Variations in the Danish flexicurity model

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Translated from FAOS-information no 29, June 2006

The Danish labour market has often been held up as a regulation model that combines a high degree of flexibility and social security. However, for certain groups of wage-earners this combination is not a matter of *both* flexibility *and* security, but rather either/or, as they are best covered by just one side or other of the model. In association with attempts to reform their own labour markets, the German and French governments have expressed interest in the Danish combination of liberal hire-and-fire rules and high unemployment benefits. The OECD has also praised Denmark for its regulation of the labour market. Most recently, in January, the EU Commission highlighted the Danish combination of flexibility and security in its annual status report for the Lisbon strategy.

This international attention has been noticed and exploited in Denmark. For example, at the annual conference of Venstre (the Liberal Party) in 2004, Anders Fogh Rasmussen stated that he was the one who thought up the idea of running together the English concepts of ‘flexibility’ and ‘security’ into ‘flexicurity’ – hopefully he was unaware that the term had been used in labour-market policy debates since the mid-1990s, including in the Netherlands. The flexicurity model has also been a regular subject of debate in the Danish papers. Most of the contributors to the debate have argued that the flexicurity model is beneficial for growth, employment and social equality. Only a very few contributors to the debate have expressed scepticism.

However, none of the contributors have questioned the model's existence or discussed which groups it covers and does not cover. Nor, indeed, is there any doubt that the concept has a certain validity – in general, the Danish labour market is characterised by relatively high social security (in the sense that unemployment benefit is relatively comprehensive) and by flexibility (in the sense that it is relatively easy for employers to get rid of labour, and also that many new jobs are created and done away with each year). As has also correctly been pointed out, this system is underpinned by a relatively wide-ranging active labour market policy, which attempts to get the unemployed back to work. However, it should be pointed out that not everybody is covered equally well by the model. This can be illustrated by looking at two very different groups on the Danish labour market: salaried staff and benefit claimants. If you include academics and other groups covered by the Salaried Employees Act, *salaried staff* make up more than half of all those in work in Denmark. The Act means that their jobs are relatively well protected – after a trial period of three months, anyone covered by this law has one month's notice of dismissal, which becomes three months' notice after one year, rising to six months in line with length of service. As a consequence, this group enjoys a greater degree of job security than the hourly paid, whose terms of notice is typically counted in days, and whose labour market is therefore less flexible.

However, salaried staff and other similarly entitled groups saw their social-security benefits (i.e. income security) reduced in the 1990s, as the maximum period during which they could receive

benefits was shortened, and the benefits increasingly failed to compensate for lost income. However, salaried staff are still entitled to claim benefits for up to four years of unemployment if they are willing to make themselves available to the labour market and active labour market policy programmes. In an international context, this is a relatively long period.

Even though salaried staffs' terms of notice are longer than those of the hourly paid, it is still cheaper both to hire and to fire salaried staff in Denmark compared with similar groups of employees in a number of Central and Southern European countries. This is partly due to the fact that these countries' employers, unlike Danish ones, have to pay full-time employees' social contributions and also allow for redundancy payments. One consequence of this is that companies have made widespread use of short-term contracts or temporary labour. This degree of regulation is therefore not an ideal model if one wants to avoid a highly divided labour market.

However, the issue is different in a Danish context – salaried staff do not fit into the image of Denmark as a country where you can get rid of unwanted employees from one day to the next. In a flexicurity context, salaried staff constitute a privileged majority of the Danish labour market, with relatively well-protected jobs and a relatively high degree of income security. However, the labour market does not just consist of people in work, but also jobseekers. Since *benefit claimants* have over the last decade been met with demands to make themselves available to the labour market, it is important to look at this group – even though in reality some find it difficult to find employment, or are able, with the help of frontline local-authority workers, to avoid their obligation to attempt to find work. This is a much smaller group than salaried staff, but nevertheless numbers about 100,000 people, even discounting those in rehabilitation and welfare-to-work programmes.

Several studies, including by the OECD, have pointed out that peripheral groups on the labour market – such as benefit claimants – will, all things considered, find it easier to get jobs when the employers' costs of hiring and firing labour are low, as is the case in Denmark. However, in relation to the flexicurity model, recipients of benefits represent in many ways the opposite situation of salaried staff. Benefit recipients are more and more often faced with demands for flexibility when it comes to jobseeking and their willingness to accept the job and active measures, but often find it difficult to get a job when they make real attempts so to do. At the same time, the group's income security has been reduced as a result of initiatives such as starting allowances, the ceiling on benefits and, most recently, the integration package – which, with its demand that certain groups of claimants have to be able to demonstrate 300 hours of work in the course of two years in order to be entitled to receive benefits, breaks with the longstanding principle of 'rights and duties' in Danish social and labour market policy; a principle which has previously meant that in order to continue to receive benefits it is sufficient to make serious attempts to get a job and participate in welfare-to-work programmes. These initiatives mean that for an increasing proportion of people who receive benefits, it is scant comfort that 'pure' benefits in Denmark are relatively high in international terms.

From a flexicurity perspective, these deteriorations could be defended if the loss of income

security was matched by increased security of employment – i.e. if the various deteriorations in benefits meant that many more people would find employment. However, we still lack clear indications that point in the direction of this being the case. According to a 2005 study conducted by the Danish National Institute of Social Research, the ceiling on benefits has only made a limited impact on employment. As far as recipients of the starting allowance are concerned, 40% have found jobs – although it is not known to what extent the low starting allowance has helped – and 60% are still unemployed. These limited effects on employment have to be weighed against the disadvantages of the loss of income security for the recipients of benefits, including the risk that these initiatives may lead to the creation of new groups of poor people. Overall, just as salaried staff do not really fit into the flexible image of the Danish labour market, benefit recipients are increasingly incompatible with the image of a labour market characterised by a high level of security.

In between these two selected groups are a number of others who more clearly reflect the Danish flexicurity model – for example, the hourly paid in the manufacturing industry and construction. As can be seen from international comparisons, the Danish flexicurity model has a number of advantages, and it is therefore only reasonable that the model is used as inspiration in other countries. We just have to remember that not all groups are equally well covered by this method of regulating the Danish labour market.