

The Danish Flexicurity Model - a Lesson for the US?

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Abstract

In recent years, increasing international competition has caused an increase in job transitions worldwide. Many countries find it difficult to manage these transitions in a way that ensures a match between labour and demand. One of the countries that seems to manage the transitions in a successful way is Denmark, where unemployment has been dropping dramatically over the last decade without a drop in job quality. This success is ascribed the so-called Danish flexicurity model, where an easy access to hiring and firing employees (flexibility) is combined with extensive active and passive labour market policies (security).

The Danish results have gained interest not only among other European countries, where unemployment rates remain high, but also in the US, where job loss is often related to lower job quality. It has, however, been the subject of much debate both in Europe and in the US, whether or not countries with distinctively different political-economic settings can learn from one another. Some have argued that cultural differences impose barriers to successful policy transfer, whereas others see it as a perfectly rational calculus to introduce 'best practices' from elsewhere.

This paper presents a third strategy. Recent literature on policy transfer suggests that successful cross-national policy transfer is possible, even across the Atlantic, but that one must be cautious in choosing the form, content and level of the learning process. By analysing and comparing the labour market policies and their settings in Denmark and the US in detail, this paper addresses the question - what and how can the US learn from the Danish model?

Where the US and Denmark share a high degree of flexibility, they differ significantly on the level of security. This also means that the Danish budget for active and passive labour market policies is significantly higher than the American one, and it seems unlikely that political support for the introduction of Danish levels of security in the US can be established. However, the paper concludes that there is learning potential between the US and Denmark in the different local level effectiveness of the money already spent. A major reason for the Danish success has been the introduction of tailor-made initiatives to the single displaced worker and a stronger coordination between local level actors. Both of which are issues where a lack of efficiency in the implementation of American active labour market policies has been reported.

Abstract in Danish

Den intensiverede internationale konkurrence har betydet en global vækst i antallet af jobskift, men ikke alle lande finder det lige let at håndtere stigningen inden for rammerne af deres hidtidige arbejdsmarkedsregulering. Nogle kæmper med høje arbejdsløshedstal, mens andre har svært ved at efteruddanne og omskole ledige i takt med forandringerne i efterspørgslen på arbejdsmarkedet. I den sammenhæng fremstår dansk arbejdsmarkedsregulering som en succeshistorie. Ikke alene er arbejdsløsheden i Danmark blevet kraftigt reduceret over de seneste 10 år, det er samtidigt sket uden en væsentlig forringelse i jobkvaliteten. Mange tilskriver succesen den danske flexicurity model, som kombinerer en let adgang til at hyre og fyre medarbejdere (fleksibilitet) med et relativt generøst dagpengesystem og et veludbygget aktiverings- og efteruddannelsesstilbud (sikkerhed).

De danske resultater har vakt opsigt ikke blot i en europæisk sammenhæng, hvor man især i lande som Tyskland og Frankrig ønsker at øge beskæftigelsen, men også i USA, hvor jobkvaliteten er for nedadgående. Det står imidlertid hen i det uvisse, hvorvidt lande med markante forskelle i deres politiske og økonomiske baggrund reelt kan lære en frugtbar lektie af den danske model. Nogle påpeger, at forskellene gør en eventuel overførsel af modellen til en risikabel affære, mens andre ser det som en rational strategi at introducere 'best practices' fra andre lande.

Dette paper angriber diskussionen fra en tredje vinkel. Nyere undersøgelser viser, at det *er* muligt at lære på tværs, men at en succesfuld læringsproces forudsætter, at form og indhold samt niveau vælges med stor omhu. Gennem en grundig analyse og sammenligning af den danske og den amerikanske arbejdsmarkedspolitik søger paperet at svare på, hvorvidt det er muligt for USA at lære af den danske flexicurity model, og hvad der potentielt kan læres.

Både dansk og amerikansk arbejdsmarkedsregulering er kendetegnet ved en høj fleksibilitet, mens sikkerheden er signifikant højere i Danmark. Det betyder også at udgifterne til understøttelse og efteruddannelse adskiller sig så kraftigt at det forekommer urealistisk at opnå politisk enighed om et dansk niveau i en amerikansk sammenhæng. Til gengæld er der et potentiale for læring vedrørende implementeringen af den aktive arbejdsmarkedspolitik, hvor USA kæmper med at få efteruddannelses- og vejledningsindsatsen til at fungere effektivt på det lokale niveau. Den danske succes hviler ikke alene på et højere udgiftsniveau, men også på reformer, der har sikret en effektiv udnyttelse af de midler, der er til rådighed, herunder introduktionen af skræddersyede uddannelses- og vejledningsforløb og en stærk lokal koordinering mellem offentlige aktører og virksomheder.

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Introduction and background

As a consequence of intensified international competition, many countries today are struggling with sector-specific outsourcing, mass layoffs and new forms of less regulated employment. This creates turbulence in the labour market, where employees are forced to move between jobs with different levels of pay and/or different skill requirements (OECD 2005). These job transitions can be difficult to manage, and many employees find themselves threatened by unemployment. Different countries try to deal with this in different ways corresponding to national institutional and political frameworks. Some countries are, however, experiencing great difficulty in managing the increasing number of job transitions within their regulatory framework and are looking for new ways to reduce unemployment or match labour and demand. In recent years, leading economists and politicians have emphasised the so-called Danish flexicurity model, which seems to have successfully tackled the challenges of international competition (European Commission 2006a; World Bank 2006; OECD 2005). In spite of high tax levels, Danish labour market regulation has since the mid 1990s succeeded in not only reducing the level of unemployment dramatically, but also increasing already exceptionally high employment rates for both men and women (OECD 2007).

Because of these results, the Danish flexicurity model has attracted increasing interest in Europe over the last five years and is now included in the European Commissions suggestion for modernising labour law in the EU (European Commission 2006b). In 2006-2007, the heated debate on the Danish flexicurity model crossed the Atlantic, too. Stories about European labour market crisis following the high unemployment levels in larger European countries like Germany and France were challenged by stories about a smaller European country handling globalisation with great success. American scholars, journalists and politicians gained interest and the Danish model was debated in leading newspapers and magazines and at a number of seminars and conferences.

The Danish Minister for Employment, Claus Hjort Frederiksen, presented the Danish Flexicurity Model at a series of speeches at American universities and think tanks in September 2006, including Yale University, Tufts University and Center for Strategic and International Studies. The same year, Bruce Stokes wrote 'Jobless, the Danish Way' in *National Journal* focusing on the success of Danish activation and retraining schemes. In early 2007, Jeffrey Stinson from *USA TODAY* highlighted the absence of working poor in Denmark compared to the US, and Jonathan Cohn praised the 'Great Danes' in *The New Republic* in an analysis of the political process behind the model. This made Henrik Rasmussen (the son of the Danish Prime Minister) reply 'Great Dane, Great Pain' in *TCS Daily* stressing the negative effects of the high Danish tax levels. There were other sceptics, among others Professor Susan Martin from Georgetown University, who underlined the exclusion of immigrants in the Danish labour market in an interview with the Danish journal *Ugebladet A4*. The American debate created echoes in Denmark as well. It was commented in February by

the Danish newspapers *Information* and *ArbejdsMarkedsPolitisk Agenda*, where it caught attention that such a large economy could find inspiration in a small economy as the Danish one. It was surprising to the Danes, that not only European countries with somewhat similar labour market conditions, but also the United States (US) would be interested in Danish flexicurity.

Sparking an interest and debating models is one thing, however, putting new ideas into policies and practice is another. This paper raises the question of whether the US debate on the Danish Flexicurity Model potentially could be more than the flavour of the month. Or put differently: Would it be possible for the US economy to introduce such policies from a small European economy? Which elements of the two labour market models could potentially be exchanged and how?

Methodology and structure of the paper

The paper is based on a series of interviews with labour market researchers, union representatives, government officials and local-level practitioners in the US as well as intensive literature studies and analyses of secondary data from Denmark, the US and the OECD.

The paper is structured in three sections and a conclusion. In the first section, the principles and effects of the Danish flexicurity model are presented, whereas the following section analyses American labour market regulation in a flexicurity perspective. The third section contains an outline of the current literature on transferability of the European discussion of flexicurity. Finally, the concluding section answers the question of whether or not the US can learn a lesson from the Danish labour market regulation and vice versa.

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The Danish Flexicurity Model

The concept of flexicurity

Even though the concept of flexicurity is today often associated with Danish labour market regulation, flexicurity is not a Danish invention. The concept was originally launched in 1995 in The Netherlands by the sociologist Hans Adriaansens (Wilthagen 1998). It refers to a political reform process of increasing security for the flexibly employed, which attracted a lot of attention from other European countries and the European Commission. More recently the concept has been adopted by a number of academics as an analytical concept in comparative studies of European models of labour market regulation and their overall effects (Wilthagen et al. 2003; Tangian 2005). Academics initially adopted the narrow definition of the concept focusing on security for the flexibly employed like contract workers or temporary agency workers (Klammer & Tilmann 2001; Wilthagen 2002). Today, the concept is often applied to a wider category of employees in the labour market. In the Danish context, the concept has first and foremost been applied in the latter sense explaining transitions for a broad group of employed and unemployed (Andersen & Mailand 2005; Madsen 2004).

The term flexicurity has a mixed history as both a policy and an analytical concept, which challenges the analyses within the field. Whereas most countries have elements of both flexibility and security in their labour market regulation, it remains unclear whether all combinations can be characterised as flexicurity. Is it possible to say that all countries possess some degree of flexicurity, which is directly comparable, or do some countries have more flexicurity than others? There seems to be consensus, among academics, that certain requirements must be fulfilled, if the concept should apply to a given labour market regulation:

- 1) A combination of flexibility for the employers and security for the employees (a so-called trade off).
- 2) That this combination produces advantages for both employers and employees (a positive sum game rather than a zero-sum game).
- 3) That the degree of flexibility and of security balances each other (both in depth, scope and length).
 - *Depth* here refers to the extent of flexibility and security.
 - *Scope* relates to the question of which groups are covered by the flexibility and the security respectively.
 - *Length* refers to the aspect of time: whether the flexibility and security occur simultaneously.

All three requirements are fulfilled in the Danish version of flexicurity as explained in more detail below.

The golden triangle

The Danish Flexicurity model is often referred to as the ‘golden triangle’ to underline the successful combination of three core elements in Danish labour market regulation: An easy access to hiring and firing, relatively generous unemployment benefits and active labour market policies (see figure 1). On the one hand, the high level of *flexibility* allows employers to trust themselves to hire employees, because they know that they can fire again if necessary. On the other hand, high levels of *security* mean that employees will get substantial income compensation if fired. Furthermore, active labour market policies ensure that employees have the skills required in the labour market and keep them motivated to work. The three elements combine in a trade off which produces advantages for both employers and employees. It is relatively easy for employees to find a job again if fired, and employers have access to a relevant and continuously updated workforce.

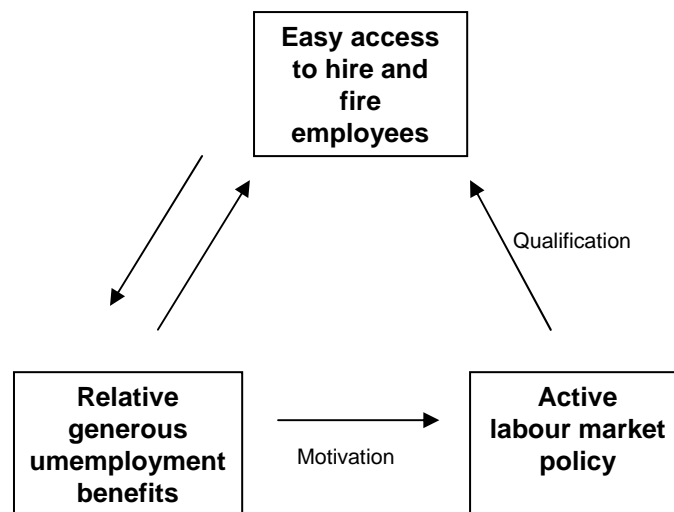


Figure 1: The ‘golden triangle’, i.e. The Danish Flexicurity Model (Bredgaard et al. 2005).

Flexibility, security and active labour market policies

The flexibility side of the Danish model is a relative high *numerical flexibility*, i.e. flexibility for the employers to adjust labour to demand by hiring and firing. In 2003, the OECD measured the general ‘strictness’ of the labour market regu-

lation across the membership countries with regards to hiring and firing. They indexed the total sum of legislation and collective agreements on the issue in each country in order to compare the overall Employment Protection Legislation (EPL). The study shows that Denmark does not follow the pattern of Germany and France with high levels of EPL, but places itself somewhere between these countries and the United States (US) and Great Britain (GB) (see Table 1). This means that the *depth* of the labour market flexibility is large in Denmark compared to other countries in Continental Europe. The difference mainly derives from different regulation of individual layoffs, whereas strictness of EPL seems to be more even between countries regarding mass layoffs.

| | EPL Collective | EPL Individual | EPL Average |
|---------|-------------------|-------------------|----------------|
| Denmark | 3,88 | 1,42 | 1,83 |
| US | 2,88 | 0,21 | 0,65 |
| GB | 2,88 | 0,75 | 1,10 |
| Germany | 3,75 | 2,21 | 2,47 |
| France | 2,13 | 3,05 | 2,89 |

Table 1: Strictness of Employment Protection Legislation (EPL) for collective dismissals, individual dismissals and the weighted average (2003). The higher the score, the more strict the regulation. Source: OECD Statistics (www.stats.oecd.org).

The security side of the Danish model takes the shape of a relatively high *income security*, i.e. the security to maintain former income levels, for employees that lose their job (passive labour market policy). As such, the *depth* of the security matches the depth of the flexibility. Employees might be fired with a short notice, but substantial financial support is immediately offered. The vast majority of employees in Denmark (a little less than 80 %) contribute to an unemployment insurance system, which is partly government funded but administered by private agencies with close relations with the trade unions (AK-Samvirke 2006). These employees qualify for unemployment benefits for a *length* of up to four years if fired. Employees without unemployment insurance (or who are not eligible) receive government-funded and less generous social assistance, leaving no unemployed financially on their own. The *scope* of income security is as broad as the labour market flexibility, since all employees that lose their jobs are covered by either unemployment insurance or social assistance. The benefits from the unemployment insurance are relatively high, especially for employees with an income below or on average. Employees with an income at 75 % of the average will receive up to 79 % of that income in unemployment benefits if fired, and employees with an average income will receive 61 %. In contrast, employees with higher salaries are less well covered in case

of unemployment. A former salary at 150 % of the average income will only be covered by 46 % (see Table 2).

| | 75% | 100% | 125% | 150% |
|---------|-----|------|------|------|
| Denmark | 79 | 61 | 52 | 46 |
| GB | 25 | 20 | 16 | 14 |
| Germany | 59 | 58 | 58 | 58 |

Table 2: Net replacement rates in % of former salary in Denmark, Great Britain and Germany at varying former income levels (75, 100, 125 and 150% of average yearly earnings) in 1999 (Hansen 2000).

The third leg in the triangle is the active labour market policies, which are strongly related to the system of unemployment insurance/social assistance. Any unemployed resisting participation in activation/retraining programmes offered or unable to document active job search are denied benefits. In this sense, Danish income security is highly conditioned, as there are strong sanctions if activity requirements are not met. The length of the income security (within the limits of the four years maximum) will be determined by the willing cooperation of the unemployed. The unemployed will be invited to mandatory meetings with a personal job counsellor at the local 'job centre' right after the job loss and repeatedly every third month. The job counsellor will check if a sufficient level of active job search is taking place and will offer retraining/activation programmes if necessary. The job centres work closely together with local companies in order to target the retraining towards the demands on the local labour market. The participation in both active and passive labour market policies (ALMP and PLMP, respectively) is high in Denmark and equals the levels in countries like Germany and France (see Table 3). However, the participation seems to have been receding over the last 10 years (Jørgensen 2006). This is not only a result of dropping unemployment, but also a consequence of a somewhat reduced funding of retraining and activation programmes. Nevertheless, public funding still remains high compared not only to Great Britain and the US but also to countries with high levels of Employment Protection Legislation like Germany and France (see Table 4). This goes both for passive labour market policies (unemployment benefits), where Denmark spends seven times more of the GDP than the US, as well as active labour market policies, where Danish spending is 10 times higher.

| | ALMP | PLMP | Total |
|---------|------|------|-------|
| Denmark | 9,7 | 4,9 | 14,6 |
| US | - | - | - |
| GB | 1,7 | 2,9 | 3,6 |
| Germany | 10,9 | 4,9 | 15,8 |
| France | 10,2 | 5,5 | 15,7 |

Table 3: Percentage of the labour force participating in programmes under active or passive labour market policies (2004). Source: OECD Statistics (www.stats.oecd.org).

| | ALMP | PLMP | Total |
|---------|------|------|-------|
| Denmark | 1,83 | 2,66 | 4,49 |
| US | 0,16 | 0,37 | 0,53 |
| GB | 0,52 | 0,29 | 0,81 |
| Germany | 1,14 | 2,31 | 3,45 |
| France | 0,97 | 1,72 | 2,69 |

Table 4: Public expenditure on active or passive labour market policies as percentage of GDP (2003). Source: OECD Statistics (www.stats.oecd.org).

The relatively generous unemployment benefits and the active labour market policies in the Danish flexicurity model combine elements of ‘carrot and stick’ incentives. The conditioned access to unemployment benefits *motivates* employees to participate in retraining and activation programmes. Furthermore, the programmes *qualify* the employees to get access to available jobs (see Figure 1). This qualification is not only optimised to fit the single employee and his/her skills and qualification profile but is also tailor-made to meet the demands of the local labour market. Personal job counselling at the local job centres play an essential role in this process of matching the unemployed with appropriate job openings.

Effects of the ‘golden triangle’

Both the passive labour market policies, which are based on policy initiatives stretching back to the early 20th century, and the more recent active labour market policies were subject to strong reforms in the mid 1990s. At that time the Social Democratic government cut the maximum number of years of unemployment benefits in half and the requirements of active job search were sharpened. Furthermore, the tailor-made approach to job counselling was introduced, and participation in activation and retraining schemes was made mandatory.

Since their introduction, the reforms of the passive and active labour market policies have had dramatic results. The unemployment rate declined by two percentage points from 1995 to 2005 and is well below the level in Great Britain and the US (see Table 5). In 2006, the unemployment rate in Denmark reached a low of 3,9 % still significantly below the corresponding rate of 4,6 % in the US (Source: OECD statistics).

| | 1995 | 2005 |
|---------|------|------|
| Denmark | 6,8 | 4,8 |
| US | 7,4 | 6,6 |
| GB | 7,3 | 6,6 |
| Germany | 8,0 | 9,4 |
| France | 11,1 | 9,9 |

Table 5: Unemployment rates as percentage of the total civilian workforce (1995 and 2005). Source: OECD Factbook 2007 (online).

The reforms have also meant an increase in the already high employment rates, and the Danish levels are still well above the levels in the US and Great Britain (see Table 6). Today, more than three fourths of the working age population in Denmark are employed. There has even been an increase in the employment rate for women, where Denmark traditionally has had higher levels than the four other countries partly due to easier access to cheap day care facilities (see Table 7).

| | 1995 | 2005 |
|---------|------|------|
| Denmark | 73,9 | 75,3 |
| US | 72,9 | 71,5 |
| GB | 69,7 | 72,6 |
| Germany | 64,6 | 65,5 |
| France | 59,1 | 62,3 |

Table 6: Employment rates as percentage of persons of working age (15-64). Source: OECD Factbook 2007 (online).

| | 1995 | 2005 |
|---------|------|------|
| Denmark | 67,0 | 70,8 |
| US | 65,8 | 65,6 |
| GB | 62,5 | 66,8 |
| Germany | 55,3 | 59,6 |
| France | 51,6 | 56,9 |

Table 7: Employment rates for women as percentage of the working age population of women (15-64). Source: OECD Factbook 2007 (online).

The Danish employment and unemployment rates cannot, however, be seen as an isolated result of the labour market policy reforms. Other factors, also outside the 'golden triangle', have to varying degrees played a role, too. However, as the triangle implies, the numerical flexicurity has been a critical precondition to the Danish job miracle. This becomes very evident, if the figures on unemployment and employment are combined with statistics on job tenure. The less strict Employment Protection Legislation in Denmark means, that job tenure patterns are more similar to Great Britain and the US than Germany and France (see Table 8). In fact, the average tenure is decreasing in Denmark, and more people had tenure of less than one year in 2000 than in 1992.

| | Tenure < 1 year | | Tenure >10 years | |
|---------|-----------------|------|------------------|------|
| | 1992 | 2000 | 1992 | 2000 |
| Denmark | 17,9 | 23,0 | 33,6 | 31,1 |
| US* | 28,8 | 27,8 | 26,6 | 25,8 |
| GB | 15,6 | 19,3 | 31,5 | 33,3 |
| Germany | 14,0 | 14,8 | 41,7 | 39,7 |
| France | 13,8 | 15,8 | 42,9 | 44,8 |
| EU 14 | 14,2 | 16,6 | 41,7 | 42,0 |

*Table 8: Percentages of employees with job tenure below one year or over 10 years in 1992 to 2000 (Auer & Cazes 2003). Source: Eurostat and national data sources. *Data for the US refer to 1991 and 1998.*

The figures on job tenure show that even though the Danish flexicurity model enhances the chance of finding a job if fired, it does not increase *job security*, i.e. the security to keep the current job. The 'golden triangle' first and foremost enhances *employment security*, the security to have a job. This is how the low unemployment rates and the high employment rates are explained. In European countries like Germany and France with high levels of EPL, job security has

been a goal in itself in the regulation of the labour market. However, struggling with high levels of unemployment for more than a decade these countries are today looking towards more flexible labour market models and ways to enhance employment security as well. This change in perspective is further addressed in the section on *The European Discussion*.

Historical and political contexts

Danish labour market regulation has been characterised as a hybrid of Liberal Market Economies (LME's) and Coordinated Market Economies (CME's), termed Negotiated Economies (NE's) (Campbell et al. 2006; Hall and Soskice 2001). The hybrid combines elements of the labour market flexibility found in LME's like the US (numerical flexibility) with elements of the security for employees found in CME's like Germany (income security). In this sense, the hybrid also combines the comparative advantages of highly innovative economies with economies based on high quality production. But the hybrid also has unique characteristics of its own. Negotiated economies are based on a strong and trust-based dialogue between employers, employees and the government embedded in extensive societal institutions.

One of the most important institutions in the Danish case is the strong collective bargaining system. It is not possible to understand the character of Danish labour market regulation without a closer look at this. Most of the regulation takes place through collective agreements concluded at sector level, and only a small part is performed through legislation. Even the regulation of the collective bargaining system itself rests on a collective agreement, the famous September Compromise from 1899 (Due et al. 1994). In cases where regulation takes place through legislation, the trade unions and the employer's organisations often have an influence, too, through the ongoing strong tripartite dialogue with the state.

The importance of collective bargaining and the power of the trade unions and the employer's organisations rest on high levels of union density and high coverage of collective agreements. Even though the collective bargaining system of Denmark has shown signs of erosion (i.e. dropping union density), as it is the case in the four other countries, the union density remains at a comparatively high level of 70,4 % (see Table 9).

| | Union density | | Coverage (2004) |
|---------|---------------|------|-----------------|
| | 1993 | 2003 | |
| Denmark | 77,3 | 70,4 | 77,0 |
| US | 15,1 | 12,4 | 13,8 |
| GB | 36,1 | 29,3 | 35,0 |
| Germany | 31,8 | 22,6 | 66,0 |
| France* | 9,6 | 8,3 | 95,0 |

Table 9: Union density and coverage of collective agreements as a percent of the total number of employees. Sources: Visser 2006; Dribbusch 2005; DA 2005.

**The figure on coverage refers to the year 2003.*

The collective bargaining system has an essential role in the regulation of the 'golden triangle'. The high numerical flexibility is a result of collective bargaining in the private sector, and the high income security is a result of legislation developed with a strong tripartite dialogue. Furthermore, the administration of the unemployment insurance and the active labour market policy involves all social partners. Both the numerical flexibility and the income security has a long history, and in this sense the Danish model of flexicurity is not a new invention. It is also fair to raise the question, whether it is an invention at all. Employer's organisations have not always loved the high unemployment benefits and trade unions have not always advocated easy access to hire and fire employees. Furthermore, from a governmental perspective, the triangle has not always been considered golden. In 2003, the government tried to introduce a significant reduction of the unemployment benefits for some employees with above average earnings. However, large protests from the trade unions and employer's organisations prevented these reforms (Andersen & Mailand 2005). It is therefore argued that the Danish model of flexicurity first and foremost has developed by chance and must be seen as a result of power struggles and ad hoc policies (Larsen 2004).

A closer look at the Danish collective bargaining system also reveals that Danish labour market regulation is based on many other forms of flexibility and security than those conceptualised by the 'golden triangle' (Andersen & Mailand). If one applies a wider perspective on the flexicurity concept, there is more to the Danish story than numerical flexibility and income security. In the so-called Wilthagen scheme the Dutch flexicurity-researcher Dr. Ton Wilthagen highlights the forms of flexibility and security contributing to important trade offs on the Dutch labour market (see Table 10). Several of these have significantly influenced the Danish labour market as well.

| Flexibility/security | Job | Employment | Income | Combination |
|----------------------|-----|------------|--------|-------------|
| Numerical | | | | |
| Working time | | | | |
| Functional | | | | |
| Pay | | | | |

Table 10: Forms of flexibility and security (Wilthagen 2002; Wilthagen et al. 2003).

On the flexibility side, the working time flexibility and the pay flexibility constitute the most important forms in Denmark besides the numerical flexibility. Both are subject to decentralised collective bargaining within sector level framework agreements, allowing the exact pay and working time to be adjusted to local needs at company level. The pay flexibility has a long tradition dating back to the early years of the 20th century (Due et al. 1994). Today, the bargaining on wages at sector level only makes up half of the wage levels actually paid leaving large room for company-level adjustments. This is very different to the centralised wage setting in, for instance, Germany. Working time flexibility constitutes another important aspect. More than half of Danish companies have introduced working time banking, and many of these have concluded company level agreements on the subject (Riedmann 2006; Ilsøe 2006). In the industrial sector alone more than one third of the companies have closed such agreements. Shop stewards and management report in several case studies that these agreements have had positive effects not only on productivity and the ability to save/create jobs, they have also contributed to a better work life balance for many of the employees covered (i.e. combination security).

Flaws in Danish labour market regulation

Although the Danish flexicurity model has proven successful, there are still problems hiding behind the general statistics. One of the most important ones is the comparatively weak integration of immigrants in the labour market (Anderesen & Mailand 2005; Bredgaard et al. 2005; Madsen, forthcoming). Even though the employment rates for the foreign-born populations in the all five countries have been improving slightly over the last decade, Denmark still presents with the poorest rates (see Table 11). In spite of costly active labour market policies, Denmark has not succeeded in significantly changing the employment situation for this group in the labour market, and immigrants are to a larger degree dependent on unemployment insurance and social assistance than ethnic Danes. This is especially significant for foreign-born men, where Denmark is lagging behind Germany, France, Great Britain and the US. Foreign-born women have the highest employment rate in the liberal market economies

of Great Britain and the US, whereas Denmark, Germany and France lie 10 percentage points lower.

| | Men | | Women | |
|---------|------|------|-------|------|
| | 1995 | 2004 | 1995 | 2004 |
| Denmark | 51,2 | 55,8 | 41,5 | 44,8 |
| US | 77,2 | 80,2 | 53,6 | 56,2 |
| GB | 67,4 | 72,8 | 51,4 | 55,0 |
| Germany | - | 63,5 | - | 46,5 |
| France | 65,7 | 66,6 | 41,4 | 47,9 |

Table 11: Employment rates for foreign-born men and women as percentage of the working age (15-64) foreign-born male and female populations. Source: OECD Factbook 2007 (online).

Recent studies suggest that even when immigrants find a job in Denmark, they are more likely to lose it than their colleagues (Ejrnæs 2006). This has to do with the type of jobs and type of sectors immigrants work in. They are more likely to be hired in jobs where a high numerical flexibility is needed. These employment tendencies among immigrants cannot solely be blamed on the Danish flexicurity model. The relatively high Danish wage level must be kept in mind, when the low integration on the labour market is to be explained. In 2006, for instance, the average wage in Denmark was almost two thirds above the average wage in the US (see Table 12). The immigrants arriving in Denmark often have poor educational backgrounds, which makes it difficult for them to meet the demands at a high wage labour market (Andersen & Mailand 2005).

| | Wage | Income tax | Employer SCC |
|---------|--------|------------|--------------|
| Denmark | 44.343 | 40,9 | 0,6 |
| US | 27.362 | 23,4 | 7,8 |
| GB | 45.395 | 26,8 | 10,7 |
| Germany | 42.003 | 42,7 | 20,5 |
| France | 31.464 | 29,1 | 42,3 |

Table 12: Average wage in Euros, average personal income tax (%) and average employer social security contribution (%) for full time workers in the industry (2006). Source: OECD Statistics (online).

The high pay flexibility in Denmark does not result in great wage dispersion. One reason for this is the way social security is financed. Unlike France and Germany (and even GB and the US), social security in Denmark is almost solely financed by personal income taxes paid by the employees (see Table 12).

Danish employers' contribution to social security is only 0,6 % of the wages. The social security costs have been externalised from the companies onto the state, and the employers' contribution is therefore only rudimentary in Denmark.

Due to the relatively high wage levels, employers are playing it safe when they hire people, and they only hire employees who they assume are worth the cost. This is also reflected in the fact that descendants of immigrants who have been educated in Denmark have far better employment rates than their parents. In 2004, the employment rates for first generation male and female immigrant descendants were 63,2 and 60,6 %, respectively, which is approximately 10 percent points higher than first generation immigrants (Source: Databank of Statistics Denmark, www.statistikbanken.dk). The exclusion tendencies on the Danish labour market do not only make it difficult for immigrants with different educational backgrounds to enter the labour market. Older workers and low-skilled workers also have somewhat greater difficulties finding new jobs than the average worker (Bredgaard et al. 2005; Madsen, forthcoming).

US employment regulation in a flexicurity perspective

Flexibility and security in the US

Looking at US employment regulation from a flexicurity perspective, there seems to be important differences but also elements of strong similarity between the Denmark and the US. On the *flexibility* side there is great similarity, since US employers have a (very) easy access to hire and fire employees. Even though the strictness of the Employment Protection Legislation is somewhat lower in the US than in Denmark (see Table 1), a high numerical flexibility is an important element in the overall dynamic of both labour markets. This flexibility is the common ground of the Liberal Market Economy of the US and the Negotiated Economy of Denmark. However, on the *security* side, there is great dissimilarity. US labour market regulation entails elements of passive and active labour market policies, but they are less comprehensive than their Danish counterparts. The most important ones are the Unemployment Insurance (UI) and Trade Adjustment Assistance (TAA), respectively. Both are explained in more detail below and discussed in comparison to the Danish flexicurity model (see Figure 2). Here, we try to answer the question of whether the American elements of flexibility and security add up in a trade-off, which benefits both employers and employees, and whether these elements match each other in depth, scope and length.

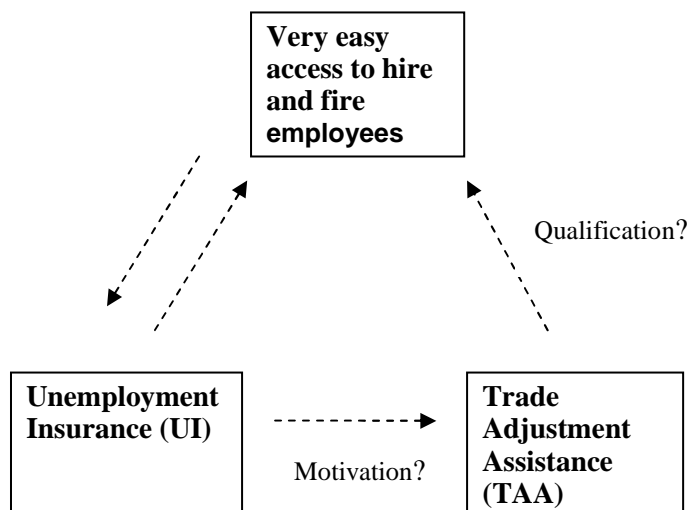


Figure 2: The US flexicurity model?

Unemployment Insurance

Regarding *income security* for unemployed, the federal and state funded Unemployment Insurance (UI) has the longest history and covers the largest *scope* of unemployed in the US (Source: Department of Labor, www.doleta.gov). It was established in 1935 as part of New Deal after the Great Depression, and today all employees, who have worked for a minimum of one year and lose their job through no fault of their own, are entitled to a maximum of 26 weeks of unemployment benefits (Kletzer & Rosen 2006). To obtain benefits, active job search and willingness to accept jobs offered is required. The scope of the UI seems to be similar to the scope of the unemployment insurance system in Denmark, since a broad group of workers are covered if fired. The broad coverage of the US system has however been put into question by recent figures, since the number of unemployed found eligible for the programme varies tremendously between states. In 2004, a little less than 80% of all job losers were found eligible and received UI, and there is no system corresponding to the Danish social assistance to cover unemployed not eligible for unemployment insurance (Kletzer & Rosen 2006).

However, the major difference between the Danish system and the UI is to be found with regards to the *length* and the *depth* of the coverage. Firstly, there is a large discrepancy between the 26 weeks limit to the Danish limit of four years. In American states experiencing high unemployment, it is possible to apply for Extended Benefits, adding between 13 and 20 weeks to the length of the basic coverage, but this still leaves a major gap between the length of the Danish and the American coverage. Secondly, the depth of the income security is very different to the Danish one (see Table 13). The maximum weekly benefits, which are set at the state level, ranged in 2004 from a low of \$133 in Puerto Rico to a high of \$551-\$826 in Massachusetts. The average weekly benefits paid were lower and ranged from \$107 (Puerto Rico) to \$351 (Massachusetts). Compared to the average weekly earnings lost this gives an overall replacement rate much lower than the Danish one. The US average replacement rate reached a low of 33% in 2000, which is about half of the Danish replacement rate of 61% in 1999 (see Table 2).

| | Maximum weekly benefit | Average weekly benefit | Replacement rates |
|---------------|------------------------|------------------------|-------------------|
| Massachusetts | \$551-\$826 | \$351 | 33-50% |
| Hawaii | \$459 | - | 50% |
| DC | \$359 | - | <25% |
| Puerto Rico | \$133 | \$107 | 33-50% |
| US average | \$300-400* | \$263 | 33% |

*Table 13: Maximum and average weekly benefits in 2004 in the UI programme. Replacement rates of average weekly earnings in 2000 (Kletzer & Rosen 2006). *Estimate*

The large depth of numerical flexibility in the US is therefore not matched by a large depth of income security like in the Danish case. Also the length of the unemployment benefits is significantly lower than in Denmark (see Figure 3).

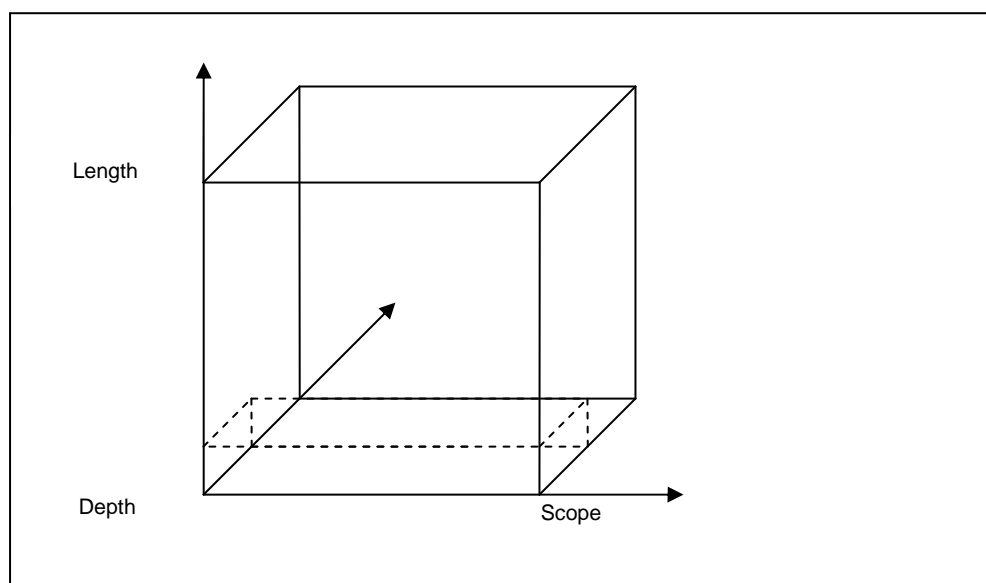


Figure 3: Illustration of the coverage of unemployment insurance in Denmark (black lines) and the US (dotted lines). Length (years), depth (replacement rate) and scope (% of job losers) compared (4 years, 61%, 80% in Denmark and 26 weeks, 33%, 80% in the US, respectively). The Danish system of social assistance is left out in this comparison.

The flexibility and security implies a different kind of trade-off. In the US, *employment security* has been targeted by a strong economic incentive. One could say that the ‘motivation’ to active job seeking and to work in the US model has been a limited access to unemployment benefits. At the same time, the com-

paratively lower wage levels and the easy access to hiring and firing have made it easy for unemployed to find new jobs quickly. However, the increased international competition over recent decades has challenged this trade-off, and there are strong signs that the trade-off has disadvantages for both employers and employees, today. It is therefore disputable, whether the trade-off can be characterised as a positive sum game.

Critics have pointed at several problems with the current system of UI. One of the major points of critique is the level of the replacement rates (Kletzer & Rosen 2006). Even though the aim of the programme has been a replacement rate of 50% of the former income, only one state (Hawaii) seems to have reached this target. Some argue that this is related to the way the system is financed, since it rests on a tax base that has not been adjusted over the last 20 years. A second point of critique is the limit of duration (ibid.). There are strong signs that the average duration of unemployment in the US is increasing, and therefore a growing number of unemployed exceeds the 26 weeks and are left with no financial coverage at all. The third point is the eligibility requirements of the programme. Due to the strong changes on the labour market a large group of Americans are hired on non-standard contracts (fixed term contracts, part-time work etc.) or are self-employed. The current programme does not cover these groups, as a certain amount of full-time work and full-time pay is required to obtain benefits. Unlike in Denmark, there is no social assistance to cover unemployed, who are not eligible for unemployment insurance.

Trade Adjustment Assistance

Federal Trade Adjustment Assistance (TAA) forms the most significant programme of active labour market policy in the US. It offers a combination of training and supplementary weeks of unemployment benefits (called Trade Readjustment Allowance) for workers, who lose their jobs as a consequence of increased import. Often the trade unions or local government officials help workers prove the relation between job loss and import. Today, workers with job loss caused by import can apply for up to two years of training and Trade Readjustment Allowance. This makes it possible to be retrained as for instance assistants in health care or as truck drivers. The programme has a long history that stretches back to the Trade Expansion Act passed in 1962 (Rosen 2006). It has been developed in line with increasing foreign competition and trade as a political compromise for job loss especially in the manufacturing industry. In order for Republicans to convince labour-friendly Democrats and trade unions to agree on further trade liberalisation, they have had to offer certain measures to help workers hit by structural unemployment. Accordingly, TAA has been reformed several times as acts on trade liberalisation have been introduced or changed. In the beginning, there was no actual enrolment in the programme due to very narrow eligibility criteria, but a reform in relation to the Trade Act of 1974 changed the criteria, and the enrolment in the programme expanded during

the 1970s. However, reports on trade unions' misuse of the programme to cover short term cyclical unemployment led to critique and reforms cutting the cost of the programme in the early 1980s (ibid). The efficiency of the programme accordingly dropped through the 1980s and so did the support from trade unions. They began referring to the programme as 'burial insurance'. However, it was still possible to pass a sister programme in relation to the North American Free Trade Agreement (NAFTA) in 1993, which introduced less narrow eligibility criteria for workers losing their jobs to import from certain countries.

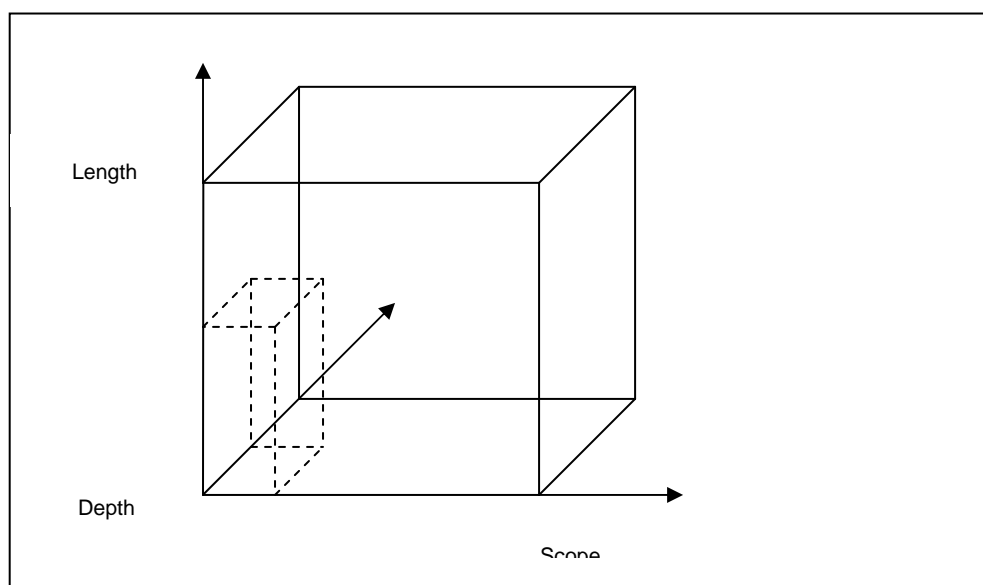


Figure 4: Illustration of the coverage of active labour market policy in Denmark (black lines) and the US (dotted lines). Length (years), depth (replacement rate) and scope (% of job losers) compared (4 years, 61%, 80% in Denmark and 2 years, 33%, 12% in the US, respectively). The Danish system of social assistance is left out in this comparison.

The coverage and the effects of Trade Adjustment Assistance have been subject to much debate up through the 1990s as well. One of the issues raised has been the *length* of the Trade Readjustment Allowance, which has not always been in line with the length of the training offered (GAO 2001). Also the *depth* of the coverage has been in question. Shortage of funding has limited the access to training, and in many cases only income maintenance was offered to eligible workers. Furthermore, displaced workers were left without health insurance, since the employer usually pays this, and the replacement rate of the Trade Readjustment Allowance did not leave room for personal contributions (Rosen 2002). One of the most important points of critique towards the coverage has been the *scope* the programme. Compared to the Danish case, the scope of the coverage is very limited (see Figure 4). A recent estimate (average 2004/2005) suggests that only 12% (70.000) of the total number of displaced workers per year (575.000) are eligible to participate in TAA following the current criteria

(Rosen 2006). The actual participation, however, is even lower. The Department of Labor registered 55.000 new Trade Readjustment Allowance recipients and 38.000 new enrolments in training in 2005 (ETA 2005). The vast majority of displaced workers are therefore not participating in the programme. Last but not least, the effect of the training offered has been put severely into question, since studies have revealed little effect on earnings compared to unemployed who did not participate (Decker & Corson 1995).

Many of the problems with the programme were addressed in the latest reform (Trade Act of 2002), which also proved to be the most extensive reform since the introduction of TAA (Rosen 2006). First of all, the sister programme, NAFTA-TAA, and TAA were merged to expand and harmonize eligibility criteria as well as reduce bureaucracy. Among others this meant that all secondary workers who produce parts and materials for companies suffering from import, were made eligible for TAA. Secondly, Trade Readjustment Allowances were extended to match the length of training, and funding for training was doubled. Thirdly, a tax credit was introduced to help recipients maintain health insurance. Fourthly, the reform introduced a wage insurance programme (Alternative Trade Adjustment Assistance). Workers over 50 years of age were, within certain limits, made eligible to receive half of the difference between the wage in their old and their new job for up to two years. This group of older workers in the manufacturing industry often has poor educational background and they experience even more difficulty in finding new jobs with similar levels of pay. Fifth, a new deadline for handling applications was introduced to speed up administration.

Evaluations of the effects of the 2002 reform show that the changes made have increased the participation in training, but this has to some extent made the administration of the programme less sensitive to individual training needs and potentials (GAO 2004; GAO 2006). In an interview with a local official, it came to light that this is perceived as highly problematic at city/community level. The official underlined that personal counselling is essential to make the programme work successfully, otherwise the bureaucracy will confuse workers and help will not be targeted to where it can be of use. Case studies also reveal ongoing problems with maintaining wage levels from the jobs lost and a very poor enrolment in Alternative Trade Adjustment Assistance. The enrolment in the health security tax credit has been poor as well, since the application process is very complicated and the actual credit not high enough to make people afford paying health insurance anyway. Furthermore, remaining bureaucratic challenges (lack of information, difficulties in proving the relation between job loss and import) as well as shortage of funding, still means that only a share of eligible workers receives TAA (GAO 2006; Rosen 2006). Some local officials and union officers still find it difficult to convince state officials of the relation between a mass layoff and import if the company does not publicly announce such a relation.

Actually, the general programme of job counselling and training under The Workforce Investment Act (WIA) from 1998 has shown better results than the TAA with regards to reemployment and wage retention, i.e. maintaining the wage level from the job lost (see Table 14). The WIA offers counselling and training for all unemployed, but does not include extra weeks of unemployment benefits like TAA. According to a local official, the enrolment in training within the WIA is therefore mainly to be found among a limited group of people, who have access to resources from elsewhere (spouse, family etc.) or do on-the-job training.

| | WIA | TAA |
|--|-----|-----|
| Reemployment rate (1st quarter) | 85% | 68% |
| Employment retention rate (3rd quarter) | 90% | 91% |
| Wage replacement rate (quarterly average) | 95% | 75% |

Table 14: Reemployment in first quarter after job loss, maintenance of employment through the third quarter and wage replacement compared to old job in 2004. A comparison of the effects of the Workforce Investment Act and the Trade Adjustment Assistance (ETA 2006).

There may be several explanations of the questionable effects of Trade Adjustment Assistance. Two thirds of TAA participants enter the programme with a high school diploma or less, and half of the participants are 45 years of age or older (ETA 2005). They have been working in manufacturing industries with relatively high wage levels, but their profile makes it difficult to secure them well-paid jobs in other sectors. Displaced workers from the manufacturing industry are most likely to accomplish full wage retention if they find a new job in manufacturing again (Kletzer 2001). However, there seems to be a growing gap between the skills needed in the manufacturing industry and the skills offered by unemployed workers (Eisen et al. 2005). Therefore only some of them can find new jobs within the sector.

There have been many signs that the challenging profile of the participants is not matched by a sensitive administration of the programme. More than one evaluation shows that the local implementation suffers from bureaucracy and lack of funding/time for individually adjusted training plans. Another general point of critique is too little coordination between state and local government on training capacity and between government and companies on labour demands (ETA 1995; GAO 2001; GAO 2004; GAO 2006). Local officials report difficul-

ties in convincing state officials about potentials in small-scale job openings, since the state bases their administration of applications for retraining on more general statistics. Furthermore, the creation of new jobs increasingly seems to take place in regional clusters, leaving a misfit between the space of state government and the space of economic action (Finegold 1999). Overall, the implementation therefore does not seem to be sufficiently coordinated between local actors. This lack of decentralisation in the management of the programme could be related to the structural challenge in the fact that TAA is a federal programme implemented by individual states. Many states are focusing their energy within TAA on getting the funding they need from the federal government. The funding for each state is calculated from the average state unemployment rate over the two previous years, and this does not always correspond with the current need for funding. However, state-initiated active labour market policies have also shown similar problems. The Wisconsin Welfare Employment Experiment, an extensive workfare and training programme also called the Wisconsin model, did not show convincing effects on reemployment either (Pawarsat & Quinn 1999). Services were not targeted to the individuals most in need, and goals and results were not monitored regularly to adjust programme failures. Furthermore, local officials did not engage sufficiently in the implementation.

Another point of critique in relation to the implementation of TAA is the public posting of jobs at the community or state level. There are reports of funding shortages to post available jobs at the state level, and this inhibits or slows down the match between the unemployed and vacant positions (AFSCME 2006). Furthermore, the federal online job site, America's Job Bank, will be closed down in 2007. This has met heavy critique from the users at the state level, because it provided interstate job information (Frauenheim 2007). Another challenge is the coordination with the community colleges, which are responsible for the largest amount of adult training for low-skilled workers (Osterman 2007). TAA recipients are not offered the same credits as other students, and many of the colleges want to avoid the TAA bureaucracy.

Finally, there is a huge structural challenge in the scale of layoffs of low-skilled workers. The TAA programme is targeted to help displaced workers in import-competing manufacturing industries, where displacement often is a result of mass layoffs. State and community officials have to deal with many applications at one time, and the bureaucracy of that leaves little time to reflect on diverse training needs and local labour market demands (Rosen 2002; GAO 2001).

As a result of lacking efficiency in the implementation, the targeting of long-term training within TAA to individuals most in need and to needs of nearby companies has not been sufficient. An OECD cross-country comparison suggests that this could be a barrier to the overall success of TAA. Their analyses show best results from active labour market policies combining general 'work first' strategies for workers with higher levels of education and targeted long-

term retraining programmes for skilled or low-skilled workers (OECD 2005). Other studies confirm this picture (Osterman 2007).

Intensified international competition and job quality

As both the Danish and the US labour market policies have succeeded in creating a high level of *employment security*, there is still a major difference when it comes to *job quality*. The current US labour market policies do not secure a horizontal mobility on the labour market like in the Danish case, where displaced workers can move between jobs with similar wage and qualification levels. Critics accordingly fear an increasing hollowing out of the American middle class. From 1979 to 1999, approximately 2,5 million jobs were lost in manufacturing, causing a loss of income over 30% for one in every four displaced manufacturing workers (Kletzer 2001). Projections suggest this development will continue, and that the challenge of restoring the American middle class will persist in the coming years. The number of jobs in manufacturing is expected to decline by 0,6% a year, whereas the number of low-paid service jobs and high paid professional jobs will increase by 2,0 % a year (Holzer & Nightingale 2007).

There is an ongoing debate in the US over how this development can be changed so job loss does not mean permanent loss of income (Kletzer 2001; Kochan & Schulman 2007; Holzer & Nightingale 2007). Some argue that Trade Adjustment Assistance and other related costly programmes of retraining will leave the government with great expenses but no significant results. Others point at the insufficiency of the current Unemployment Insurance, when workers have to move between sectors. Another approach could be to dissect the problems of the current systems in more detail. The OECD study suggests that maybe the idea of the programmes is not the problem but rather the implementation.

The proposal of Wage Insurance

The most recent initiative to fight loss in job quality has been the proposal by Congressman Jim McDermott in March 2007 to introduce a general Wage Insurance (WI). The idea is to extend the current Alternative Trade Adjustment Assistance for workers over 50 years of age eligible for TAA to all displaced workers eligible for UI (Committee on Ways and Means 2007). WI would mean that displaced workers could receive half of the wage difference between the old and the new job for up to two years with a yearly limit of 10.000\$. This could equip them with more time to look for a new job with a wage level close to the level of the old job.

The proposal has been heavily debated. Trade unions have spoken against the proposal for several reasons (Lee 2007). First and foremost they are against spending more money on moving displaced workers into low wage jobs. They would rather invest in improving the effectiveness of retraining to move displaced workers into jobs with higher wage levels (i.e. a 'good jobs' strategy).

Secondly, they would rather extend the eligibility for UI to a larger proportion of the work force than improve income maintenance for those already eligible to UI. Thirdly, WI could have a negative influence of workers' motivation to participate in retraining, which according to local officials is low already. Academics have criticised the proposal as well. Some argue that WI will subsidise 'downward mobility' and encourage high-productivity workers to accept low-productivity jobs leaving skills and experience unused in the economy (Eisenbrey 2007). In line with this, others emphasise a more urgent need for broadening the coverage of the Trade Adjustment Assistance into a 'Globalisation Adjustment Assistance' (Kochan & Shulman 2007). Intensified competition does not only result in increased import but also in introduction of new technology and new work organisation, which affect job loss in the industry (and the service sector) as well. However, some take a more pragmatic approach and support the WI as an important step towards more comprehensive solutions (Rosen 2007).

The costs of expanding the coverage of UI or TAA to all displaced workers are large, and it can therefore be difficult to find political support for high levels of security (Zhou 2007). If Unemployment Insurance should be accessible to all workers, more workers would receive benefits. In the past 25 years, only 37% of unemployed have received benefits. If this rate should increase to 50%, the estimated extra costs would be \$7,4 billion (Kletzer & Rosen 2006). The cost of expanding Trade Adjustment Assistance to all displaced workers would be even larger. The yearly spending would increase from \$0,9 billion to \$12,1 billion a year (Rosen 2006). Finally, other academics point to a need for a stronger focus on demand side issues and initiatives (Holzer & Nightingale 2007). These issues include reforms of corporate income tax, of the health care system and of public infrastructures in order to facilitate the creation of high-skilled high-innovative jobs and thereby strengthen the US comparative advantage as a Liberal Market Economy (Hindery et al. 2007).

The question of transferability

Increasing international competition has not only accelerated the development of companies, technology and labour markets but also of cross-national policy transfer (Dolowitz & Marsh 2000). It is therefore no coincidence that countries having a hard time handling job transitions look for solutions in domestic policies elsewhere. However, cross-national policy transfer or learning can vary on a number of dimensions, and not all variations have proved successful. In the following, the most essential of those dimensions will therefore be outlined.

What is cross-national policy transfer?

One of the most important discussions on policy transfer relates to the *degree* of transfer. The word ‘transfer’ implies a process of copying a policy from one setting to another, but comprehensive reviews on policy transfer literature underline that this is only one version of transfer (Dolowitz & Marsh 1996, 2000). Transfer comes in harder as well as softer forms ranging from *copying* policies to seeking *inspiration* for new policies abroad (see Table 15). A *hybridisation* of policies represents a mixture, where old policies are blended with new ones.

| Why transfer | What is transferred | Degrees of transfer | Level of transfer | Constraints on transfer | Transfer and policy failure |
|-----------------------------------|---|---|--|--|---|
| Voluntary Mixtures Coercive | Goals Structures Content Instruments Institutions Ideology/ideas Negative lessons | Copying Hybridisation Inspiration | Supra-national State Regional Local | Complexity Structure Institutions Ideology Culture | Uninformed Incomplete Inappropriate |

Table 15: Dimensions of cross-national policy transfer (inspired by Dolowitz & Marsh 1996, 2000).

The degree of transfer depends on a number of other factors (Dolowitz & Marsh 1996, 2000). First of all, not all transfer is a *voluntary* activity. Transfer can be initiated by *coercive* pressure from supranational institutions (like for instance the EU). Furthermore, the subject of the transfer can vary. Many think about transfer of policy *content*, when they here about policy transfer, but transfer of many other aspects of policy has taken place as well. Exchange can also focus on policy *goals*, administrative *instruments* or government *structures*. If the transfer only addresses one aspect it seems likely that it will take a hybridisation character as it can be impossible to implement a mere copy in an otherwise unchanged setting. However, even if old and new elements are blended, the setting can still impose severe *constraints* on the transfer, if the new policy aspects co-

incide with old institutions, structures or cultures. Finally, the level of transfer can vary. Cross-national transfer is not limited to exchange of policies between governments but also moves through for instance regional partnerships (more on this later).

Another important lesson from the current literature on policy transfer is to remember that transfer of policies is not always a success. This is among others demonstrated by a study of a transfer between Great Britain and the US, which led to policy failure (Dolowitz & Marsh 2000). In the 1980s the British government was looking for inspiration to reduce benefit expenditure to Child Support Agencies, who supported single parents in the country. Their choice fell on the American Child Support Enforcement System, more specifically the development of the US-highlighted Wisconsin model. The implementation of a new structure of Child Support Agencies in Great Britain did not work out very well for at least three reasons (ibid). First, the transfer was *uninformed*. The British government officials concentrated on Wisconsin and did not learn of drawbacks of similar systems in other states. As described earlier in this paper, later evaluations of the Wisconsin model documented problematic results (Pawasarat & Quinn 1999). Second, the transfer was *incomplete*. The administrative implementation of the new system in Great Britain did not include important administrative elements and benefit levels came out dissatisfactory to all involved parties. Finally, the transfer could be described as *inappropriate*. The aim of the American system was not primarily to cut expenditure on benefits but to reintegrate single mothers in the workforce. The difference in aims contributed heavily to implementation failure.

The British-American example of transatlantic transfer teaches us important lessons, when learning how to learn. Policy transfer can be counterproductive if the involved parties are not cautious. When transferring successful policies, nobody wants to inherit the diseases of those policies like for instance the lack of integration of immigrants in the Danish labour market. This advocates for softer and voluntary forms of transfer that stretch over longer periods of time. Such processes make ongoing adjustment of ideas to different contexts possible, while leaving room to monitor *negative lessons* related to 'best practices'. However, the British case also tells us that transfer at central levels must include reflections of implementation instruments at more local levels if policies should succeed in practice.

The European discussion

Before we move on to the question of whether elements of the Danish flexicurity model could be transferred to the US or not, we will first take a look at the European discussion of the transferability of employment strategies in general and the Danish model in particular. The experience from this debate entails some important lessons on what can be learned by whom, when it comes to labour market policies.

The process of learning about employment issues within the European Union (EU) goes back to the 1990s, where the European Employment Strategy (EES) was formulated in 1997. The EES was later integrated in the Lisbon goals, which were concluded in 2000. Here, the members of the EU among others agreed on working towards a common set of goals on employment in order to improve economic growth, the number of high quality jobs and social cohesion by 2010. The goals were to be reached using 'soft' methods of regulation, i.e. the Open Method of Coordination (OMC), a process of 'mutual learning' between member states (ETUI-REHS & CARMA 2006a, 2006b). Inspired by the subsidiary principle, this approach allowed a convergence towards common goals sensitive to different national institutional contexts by leaving the implementation to the individual member state. However, even though the OMC included ongoing monitoring and evaluation of national results in order to compare performances, it did not prescribe sanctions in a legal sense.

Already in the early stages of the European discussion of employment goals in the 1990s, the issue of balancing flexibility and security was touched upon, but the discussion on flexicurity has especially intensified in the last couple of years (Spidla 2006; Vermeulen & Hurley 2007). After the millennium, there was an intense debate on the EES leading to revisions in both 2003 and 2005, which increasingly included the concepts (Mailand 2007). Finally, in the autumn of 2006 the European Commission launched a green paper on modernising labour law in Europe, where the flexicurity concept is offered a main role in structuring the employment goals for the future (European Commission 2006). The green paper represents a shift in discourse from aiming at *job security* to *employment security*. This also means a focus on social security independent of the single company in order to secure employees, who move between jobs, and to make it easier for companies to hire employees.

The hearings of the green paper across Europe have displayed some differences in the interpretation of flexicurity as a common goal. The European Trade Union Confederation (ETUC) has warned against cuts in Employment Protection Legislation (which especially is a concern among French and German trade unions) and underlined the need to end the growth in short-term hiring. The UEAPME, which represents small and medium-sized companies in Europe, however, highlighted the need for a revision of taxation and social protection systems. During the hearings in Denmark, the Confederation of Danish Employers (DA) emphasised the easy access to hiring and firing in the Danish flexicurity model, which they believe prevents short-term hiring, whereas the Danish Confederation of Trade Unions (LO) expressed their concern over exporting Danish flexibility without Danish security (DA 2006; LO 2006). In general, however, the employer side seems more optimistic about transferring the strategy than the employee side. Recently, the director of the Confederation of German Employers' Association (BDA) has spoken strongly in favour of flexicurity and a focus on employment security (ArbejdsMarkedsPolitisk Agenda 2007).

The discussion of the green paper illustrates the fact that flexicurity is more than a common *goal* of employment security. The flexicurity concept originated as a policy in The Netherlands and was later applied to Danish employment strategies. Not just any form of employment regulation can be described as flexicurity, since there are certain requirements to the *content* of the employment strategy that should be met (see earlier). Unsurprisingly, this has raised the question of whether it is possible to transfer elements of strategy between member states. During the hearings, many have highlighted the large institutional and regulatory differences in Europe and questioned the transferability (EurActiv 2007; Vermeylen & Hurley 2007). There are obvious reasons for this concern. When the French government in 2006 launched a plan to increase flexibility on the labour market for young people less than 26 years of age, i.e. create a more easy access to fire (and willingness to hire), this caused large public protests and riots in the streets (EurActiv 2006). Even though the plan also included a somewhat more easy access to unemployment benefits for this group of employees, it was not perceived as a balance between flexibility and security. In public, the plan was looked upon as mere flexibility that would not improve the conditions for young people. This is a good example of that a certain degree of increased security is necessary, if populations in countries with high unemployment and high unemployment protection should be willing to take on new risks (Vermeylen & Hurley 2007)

Political, economic and institutional national contexts constitute important frames of voluntary cross-national policy transfer. More than one study suggests that not everybody can or have an interest in learning from other countries. A recent analysis of Open Method of Coordination Committees in Europe and in the Nordic countries arrives at three interesting conclusions on whether learning takes place or not in these relatively voluntary settings of learning (Nedergaard 2005, 2006). First of all, repeated contact between the tutor country and learning country is important. Secondly, examples of domestic 'best practices' can be a driver of learning. Thirdly, similar economic-political background to some extent can be a driver of learning. However, if backgrounds are too similar, as in the Nordic countries, this does not facilitate learning. Very similar economic-political backgrounds are often affiliated with similar performance, and there is a need for some degree of visible political failure to stimulate learning of others 'best practices'. This is why, for instance countries like France and Germany struggling with high rates of unemployment has shown greater interest in the Danish flexicurity model than the other Nordic countries. To this might be added that the simplicity of the policy plays a role as well (Dolowitz & Marsh 1996). A 'best practice' will only receive a status of 'best practice' if its content and results can easily be monitored and compared.

Can those who want to learn, learn?

The study of the OCM Committees in Europe and the study of the transatlantic transfer between the US and Great Britain mentioned earlier suggest an interest-

ing paradox of voluntary cross-national learning: can those who want to learn actually learn? The studies report a large motivation to learn from best practices in countries, which have a somewhat different institutional and economic structure, because, policy performances often will differ significantly (France & Germany vs. Denmark; Great Britain vs. the US). However, the varying national contexts imply large challenges or even constraints, when implementing those best practices. The paradox can be said to represent two extremes in the debate on policy transfer. First, the ‘best practice’ argument represents the viewpoint of *perfect rationality* (Dolowitz 2000). The most rational thing to do, when looking for a solution to a domestic policy failure, is to look for convincing examples of policy success. Second, the ‘context’ argument can in its extreme represent the viewpoint of *cultural determinism*. It is not possible, and it might even be dangerous, to transfer policies between countries with different cultures, because similar policies will be perceived and implemented very differently and have very different effects. There are strengths and weaknesses of both arguments. Whereas it is important to reflect on contexts, when transferring policies, in order to prevent negative side effects and policy failure, an overly strong emphasis on cross-national cultural differences might keep one from pursuing possible and necessary institutional change (Hall 1986).

Both types of arguments have been used regarding transfer of the Danish flexicurity model. The case of France demonstrates how the rational ‘best practice’ approach has been used in practice, although with not very convincing results. Like the British case, it can be described as an *incomplete transfer*. The main focus was on introducing flexibility instruments, leaving too little attention to the security elements, which are an integrated and important part of the Danish flexicurity model. In a context of high levels of Employment Protection Legislation and high unemployment, this led to policy failure.

The cultural argument has been used in several papers to underline the impossible manoeuvre of transferring the Danish flexicurity model in its totality to other countries. They, to varying degrees, argue that the cultural features of Denmark (for instance high levels of trust and social coherence) remain unmatched by other countries, and this makes it extremely difficult to transfer Danish policies to other settings, because Danish labour market policies and their performance are strongly embedded in these cultural peculiarities (Raghuram et al. 2001; Algan and Cahuc 2005; Rasmussen et al. 2003).

The problem of both the rationalist and the cultural-deterministic argument is the scale of the equation. Both underestimate the importance of in-between institutional structures that can both constrain and facilitate implementation of new practices all the way down from the central government to local officials. Policy transfer can take place on different levels (local, national and supranational) and touch upon different elements like goals, content or instruments (Dolowitz & Marsh 2000). Other ‘policy entrepreneurs’ than ministerial representatives can generate change and the change can address smaller scale issues than complete labour market models (Dolowitz & Marsh 1996). However, no

matter the level and scale of transfer, it seems crucial to closely consider the implications of implementation of new policies in old local institutions and to some extent include local level actors in the process.

Bottom up vs. top down – new roads to learning

In line with this there seems to be growing evidence of cross-national learning taking place at sub-national levels, for instance between state or regional councils or between communities (also across the Atlantic). This implies a learning process with more of a bottom-up than a top-down character. The German Marshall Fund of the United States (GMF) has launched a programme on Comparative Domestic Policy, where they have funded transatlantic study tours and fellowships between the US and Europe (GMF 2007). The targeted areas have included, among others, environmental policy, urban policy and social policy. The programme has stimulated learning and policy exchange at both the state and community level. At the state level, Hessen in Germany has drawn lessons from the welfare-to-work programmes in Wisconsin (the Wisconsin model), whereas the cities of San Francisco and Boston have developed car-sharing programmes inspired by models in Berlin and Freiburg.

Especially within environmental and urban policy, learning has been strong. Within these fields, American regions and cities have by their own initiative generated 'learning communities', i.e. partnerships on exchange of best practices with regions and cities in Europe. A strong example is the 'Partnership Agreement' between the Northern Virginia Regional Commission and the Verband Region Stuttgart, Germany (NVRC & VRS 1999, 2004). The two public regional councils concluded the first agreement on exchange of ideas and practices in 1999 and renewed it for another five years in 2004. The focus of the partnership is environmental and urban planning and a variety of successful policies on car-sharing, light rail, architecture and pollution control. Maryland and Schleswig-Holstein (also Germany) have concluded a similar partnership at the state level on environmental policies and have especially focused on exchange of practices regarding wind energy (Medearis & Swett 2003). At the community level, the city of Cape Charles in Virginia has been transformed into an ecological industrial park with strong inspirations from visits to the city of Kalundborg, Denmark (ibid., Hayes 2007). In Hamburg, the Körber Stiftung together with American collaborators has launched an exchange programme on education and job training of immigrant youth between immigration professionals in Hamburg, Germany, and New York, including study trips and workshops (Körber Stiftung & CDS 2007).

The actors involved in these transatlantic exchanges report great advantages in learning at the sub-national level. The more local the exchange, the greater the pragmatism and open-mindedness to new ideas and best practices (Medearis & Swett 2003; GMF 2007). Cultural barriers at this level seem to be overstated, since local officials and volunteers often are more sensitive to results than ideological fights. Furthermore, existing practices can be balanced against new ones

and potential interactions immediately handled. For instance, procedural potentials and barriers can be located at an early stage. However, some of the local level exchanges were more successful than others. Best results were achieved by 'learning communities', where a repeated face to face contact was established. Like in the European coordination of employment strategies within the OMC committees, the repeated personal contact created mutual learning settings, where both positive AND negative lessons could be exchanged over time and 'perfect rationality' mistakes avoided. Constraints on learning were, among others, lack of will among local politicians to fund cross-national exchange programmes. Exchange programmes that received funding and organisational support from outside the communities were among the strongest. Lack of competencies among local actors to support the implementation of new policies were also reported as constraints of learning. Surprisingly, very few reported constraints from existing regulatory frameworks, which suggest a quite large room for manoeuvre in local exchange of policies.

A lesson for the US – and a lesson for the Danes?

Conclusion and discussion

From Copenhagen to Washington...

Denmark and the US are facing some of the same challenges caused by intensified international competition. The number of job transitions is on the rise and is not always easy to manage, since the developments in the labour market are not only uncertain but also costly. However, the two countries give different answers with different outcomes to the same question asked. The US is experiencing troubles handling the transitions of displaced workers with its current labour market policies, whereas the Danish flexicurity model has been more successful in retraining and reemploying displaced workers without a loss in job quality. The visible difference in policy performance has led to a growing American interest in the Danish model, but does not guarantee that a successful policy transfer can take place. Studies on voluntary cross-national policy transfer have shown that, while countries with varying political-economical settings have a high motivation for mutual learning of best practices, it remains a challenge to transfer policies between such settings. The chances of a successful learning process depend on what is being transferred and how.

If we focus on the *content* of the labour market policies in the two countries, there are both obvious similarities and differences. Both the Danish and the US economies are characterised by a large numerical flexibility that ensures an easy access to hiring and firing for employers and high levels of employment security for employees. Regarding passive labour market policies (i.e. unemployment benefits) we find, however, a very different coverage especially on the length of the benefit period offered (4 years in Denmark, 26 weeks in the US). Furthermore, great difference in coverage is found within active labour market policies as well. Here, the scope of the coverage is the turning point. Whereas all displaced workers in Denmark are eligible for retraining, only one in eight qualifies in the US. The limited access to active labour market policies in the US does not seem sufficient to ensure a match between labour and demand on the labour market. US employers report difficulties in recruiting relevant high-skilled labour simultaneously with dropping job quality for displaced workers. However, economic estimates of costs in adding Danish levels of security to the current US level suggest that it might be difficult to establish political support for the full Danish package. The economic-political context seems to be too heavy a constraint to allow a transfer regarding the coverage of the labour market policies.

The comparative analysis has, nevertheless, shed light on another important potential subject of transfer, namely the *instruments* used in active labour market policies. Evaluations of American retraining programmes for displaced workers report a variety of problems with the implementation of the pro-

grammes at the state and local level. First of all, the retraining does not seem to be sufficiently coordinated with local labour market actors like local companies and schools. Displaced workers are therefore not always retrained to match labour demands. Secondly, the retraining is not sufficiently matched with the individual qualification profiles of the displaced workers to add new skills and competencies where needed. The implementation of active labour market policies in Denmark tells a completely different story. Here, a strong coordination at the local level as well as tailor-made individual retraining plans is highlighted as some of the most important reasons for successful reemployment in recent years. The only exception seems to be first generation immigrants, who are performing more poorly in Denmark than in the US in spite of the focused implementation.

If mutual learning on these administrative techniques and practices should take place, it appears crucial to include exchange at the *sub-national level*. Even though incentives and support from national and supranational institutions (reforms of legislation/agreements or funding/organisational assistance for repeated contact) can enhance learning, successful implementation of programmes is also highly dependent on local-level actors. It can therefore not be left alone to the Administration in Copenhagen and Washington. As local-level officials administering the Danish and American active labour market policies work in different institutional settings, instruments are, however, not able to be copied directly. Rather, exchange must follow a *hybridisation* character, where new elements can be adjusted and blended with old ones.

There are a number of important local-level structures and institutions, which differ between Denmark and the US and which may impose *constraints* on such a learning process. First of all, size matters. When a manufacturing company closes in the US many thousands of workers are displaced. Company closings also cluster in specific regions leaving an even larger number out of work in the same area. The scale of the mass layoffs is often smaller in Denmark due to a smaller company and country size. A mass layoff in Denmark therefore imposes less strain on local officials and local labour markets. The much larger size of the US also implies a different government structure, where coordination unlike in the Danish case not only must be handled between the state and local levels but also between the state and federal levels. Another constraint is the different traditions for coordination at the local level in the Negotiated Economy of Denmark and the Liberal Economy of the US, respectively. In Denmark, there is a long tradition for local-level coordination between job centres, companies and public education centres for adults. These links and networks do not seem to be as strong in the US. However, the Danish 'job miracle' did not grow out of these networks alone. It was, among others, a reform of the structure and content of this coordination in the 1990's that boosted the employment rates in Denmark. Institutions, structures and procedures did indeed change when policies were transformed, and a similar process should therefore also be possible elsewhere.

Employment security AND job quality

The comparison between the Danish flexicurity model and US labour market regulation can be an important lesson for the Danes and other Europeans, too. Currently, the European discussion on the next European Employment Strategy is highly focused on addressing *employment security* as the new common goal in Europe (Spidla 2006; European Commission 2006b; Vermeylen & Hurley 2007). However, the US case tells us that a strictly quantitative focus can be too simple a measure of sustainable employment performance. Displaced American workers often find new jobs again quickly, but many of them end up with significantly lower wages than before. This does not only mean that a growing part of the middle class ends up among the 'working poor', but also that qualifications, and thereby large productivity potentials, are left behind. American employers have in recent years reported increasing difficulties in recruiting relevant high-skilled labour (Kletzer 2001; Mishel et al. 2007; ETUI-REHS & CARMA 2006a). If other European countries were to adopt the Danish aim of employment security, policy instruments should therefore be chosen cautiously in order to ensure balanced trade offs for all workers.

There are trends of segmentation on job quality in Europe as well. Especially in countries with high levels of Employment Protection Legislation like France and Germany, a double movement on job tenure can be studied. Both the group of employees with tenure above 10 years and the groups with tenure less than one year seem to be growing (see Table 8). As a consequence of increasing international competition employers simultaneously become more and more dependent on high-skilled workers and on a high numerical flexibility in order to match labour and demand. This results in an intensified hiring and firing of low-skilled workers. If numerical flexibility is obstructed by high levels of Employment Protection Legislation, employers will make use of hiring on fixed term contracts, temporary agency workers etc. in order to avoid the costly conditions of firing employees on open-ended contracts (DiPrete et al. 2005). This could imply a European version of 'downward mobility', where some groups of workers are left behind with regards to the benefits and the retraining offered only to people in open-ended positions. The downward mobility might endanger the workers' *option security* (i.e. having some degree of choice, when seeking a job) leaving the fired with little room to find a job that matches their qualifications with regards to tasks, pay and status (Lescke et al. 2006). Over time, this can reduce their general level of qualifications and employability. If employment security is reached by increasing the number of temporary contracts, other problems therefore may occur. The question in Europe is how we can increase flexibility (and employment) without creating or enhancing a segmented labour market.

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