



# Ins-and-outs of the Danish flexicurity model

- Denmark's flexicurity model enables businesses to hire and fire employees relatively easily while guaranteeing workers sufficient income and retraining options if they lose their jobs.
- This model is based on an active training policy.
- Employee-management dialogue lies at the heart of the model and underpins its smooth operation.
- The upshot is that Denmark has a far higher employment rate than the EU average, and inequalities there are lower than elsewhere in Europe.

Denmark's flexicurity system, which puts great emphasis on employee-management dialogue and protects individuals rather than jobs, is often cited as being exemplary. Denmark's employment rate is higher than that of most European countries. What's more, it has a lower level of income inequality. It's worth taking an in-depth look at a system that is generating a great deal of interest.

## Three pillars of Denmark's flexicurity model

The exact shape of the flexicurity model is continually changing. Accordingly, the length of time for which the unemployed receive benefits has been cut since the 2008 crisis with the deterioration in the public finances. That said, the model has kept all its basic hallmarks, which are mainly the result of the reforms introduced from the mid-1990s to combat a high unemployment rate.

In particular, the aim was to provide both flexibility and security in the labour market by enabling businesses to hire and fire employees easily according to trends in their business, while giving individuals sufficient income should they lose their job (see charts 1 and 2).

As a result, businesses are more inclined to take the risk of recruiting new employees during a recovery, especially young people without experience, while unions are more willing to support labour market flexibility owing to the generous unemployment benefits. The Danish model is also based on an active policy of training to make it easier for those without a job to regain employment; this policy is backed up by stringent controls on job seekers. Overall, Denmark devoted 3.3% of its GDP to labour market policies in 2015 (2.1% for active

## Few curbs on redundancies

Job protection in the event of individual redundancies (permanent contracts)  
Scale from 0 (few restrictions) to 6 (major restrictions) – 2013 data

■ Procedural inconvenience ■ Notice and severance pay for no-fault individual dismissal ■ Difficulty of dismissal

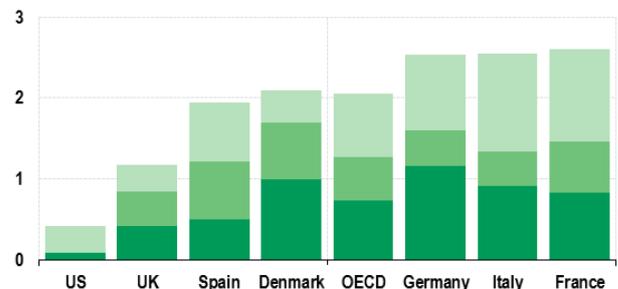


Chart 1

Source: OECD

## Advantageous unemployment insurance system

Net replacement rates - initial unemployment period\* (%)

— Denmark - - - Italy — France - - - Germany - - - Spain

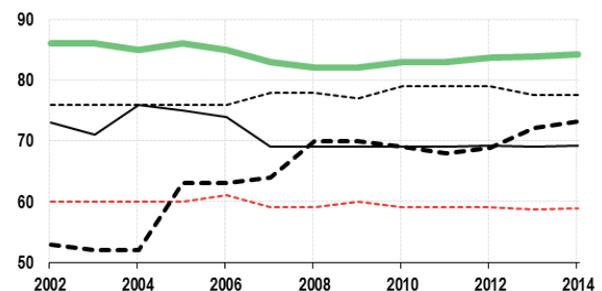


Chart 2

Source: OECD

\*For a single person with no children, not eligible for housing benefits in cash or social aid payments, previous gains = 67% of average earnings

policies). That's far more than the average for OECD countries (1.3% of GDP). Employers and unions play a pivotal role in the Danish model.

## Crucial role of employers and unions

Denmark has had to enact European regulations into its own law in recent years. It has introduced legislation on occupational health and safety, unemployment insurance and



assistance for job seekers. Recourse to fixed-term contracts is now also subject to curbs.

Nonetheless, the Danish labour market model continues to give employers and unions the greatest say. The government legislates as little as possible. It has not set any country-wide minimum wage and acts only when negotiations get bogged down.

The Danish model is predicated on "centralised decentralisation". This means that industry-wide agreements form the basis for the negotiations at company level as part of the vertical decentralisation of wages, working hours and paid leave arrangements. For example, employers and unions in each industry reach agreement on a minimum wage and changes to it based on trends in Denmark's competitiveness and inflation, while additional pay is generally negotiated at each business by union representatives. As a result, the wages earned by close to half of new hires are well above the agreed minimum.

### Structured decentralisation

The balance of power between labour partners is conducive to the negotiation of mutually beneficial agreements in a fairly loose legislative and regulatory environment. Denmark's labour market has representative employee and employer organisations, which are credible and able to negotiate based on the mutual recognition of their rights and powers. According to the OECD, 68% of employees worked at a business affiliated with an employers' organisation in 2002 (versus 51% on average in OECD countries), and union membership ran at close to 68.8% of employees in 2013, versus 7.7% in France and 18.1% in Germany.

What's more, regulation at several levels fosters the replication at local level of the bargaining processes employed at national level. Employers and unions also manage to build stable, long-term relationships by holding regular meetings during which they may exchange information about how the business is running. What's more, they have every interest in reaching agreement locally because the usually less favourable industry-wide agreements apply otherwise. Equally, they have every interest in reaching industry-wide agreements to retain control over the workings of the labour market.

The European Journal of Industrial Relations<sup>1</sup> underlines the importance of these factors in a comparative study of wage negotiations in two manufacturing businesses of a similar size and organisation in Australia and Denmark. Pay negotiations at business level are decentralised in two different ways in Denmark and in Australia. Unlike in Denmark, negotiations in Australia may be conducted by non-unionised employee representatives. This measure weakens employee unions. The rate of union membership thus declined from 40% in 1990 to 15% of employees by 2014. Meetings between employee and business representatives are less frequent, the flow of information is less fluid, and the unions find it harder to predict

<sup>1</sup> Anna Ilsoe, Andreas Pekarek, Ray Fells, "Partnership under pressure: A process perspective on decentralized bargaining in Danish and Australian manufacturing", June 2017

### ■ Employment is more sensitive to economic trends

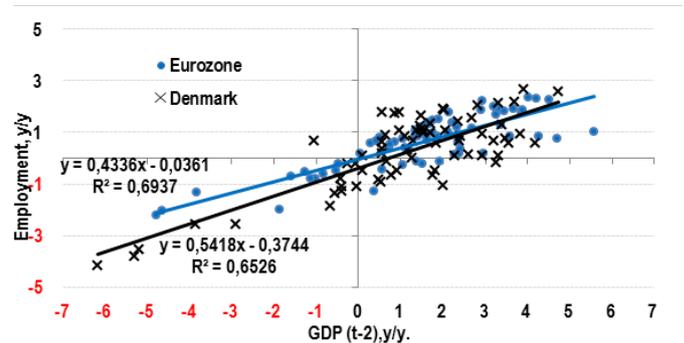


Chart 3

Source: Eurostat

the expectations of the business. In addition, pay negotiations, which take place separately and on an annual basis in Denmark, are conducted from time to time in more extensive negotiations in Australia. Employees and the business may therefore approach negotiations from different perspectives, and so pay talks can become drawn out.

What's more, the workings of the labour market in Australia have been enacted into the legislation to a greater extent. The Fair Work Commission (FWC), a court responsible with setting the minimum salary, is charged with ruling on working conditions, facilitating company-wide agreements and settling disputes. As a result, if the employer and employees fail to agree where an agreement comes to an end, the employees have two options. Either the arrangements laid down by the FWC, which may be more favourable for the employer apply, or the previous agreement, without any wage increases being possible, replaces the initial agreement. Ultimately, the lack of agreement proves to be advantageous for the employer. Industrial action then becomes a means for employees to bring the employer to the negotiating table.

### Effects of flexicurity on employment

Denmark, which had an unemployment rate of 5.7% in April, boasts growth that is richer in terms of jobs than many of its European partners. It can also lay claim to a far higher rate of employment (75% in 2016) than the EU average (67% in 2016). The same observation also holds true for populations that have struggled to enter the labour market, such as women, the under 25s and the over 55s.

Active policies supporting the unemployed appear to get job seekers back to work more rapidly by achieving a better match between supply and demand for labour. The proportion of the unemployed who have been out of work for over a year (22.3% in 2016) is far lower in Denmark than it is across the EU (46.4%) or in Germany (41.9%). The structural unemployment rate or NAIRU<sup>2</sup>, estimated by the OECD at 6.3% in 2016, is also below the European average.

<sup>2</sup> The NAIRU (Non-Accelerating Inflation Rate of Unemployment) is used to measure the structural unemployment rate. It is the rate of unemployment compatible with price stability.



While the labour market excludes very few workers, close to one-quarter of Danish employees work part-time, or more than the EU taken as a whole (19.5% of employment in 2016). The number of hours worked per employee is thus relatively low<sup>3</sup>. In addition, the sensitivity of employment to economic trends carries certain risks if the cycle turns lower. Employment tends to fall heavily on the downside. This applied in particular during the 2008 crisis when the 7% decline in GDP between the end of 2007 and the second quarter of 2009 was accompanied by a contraction of over 5% in employment between year-end 2008 and the first quarter of 2010 (see chart 3). The unemployment rate more than doubled in the space of two years. It went up from 3.1% at the beginning of 2008 to 7.5% at the beginning of 2010. This reaction was stronger than that seen in other European countries. By way of comparison, Germany, which experienced a decline in its GDP of close to 7% between the first quarters of 2008 and 2009, decided instead to reduce the number of hours worked. As a result, employment dropped back only slightly (-0.5% between Q1-09 and Q1-10).

Unemployment benefits and training mitigate some of the effects of the crisis – i.e. an equally abrupt downturn in private consumption and deskilling of the unemployed. That said, such measures have a number of drawbacks during recessions. The increase in benefit payments is detrimental to the public finances, and training-related employment policies are less effective owing to the dearth of vacant positions.

### Effects of the Danish model on income inequalities

Collective bargaining helps to keep salary differentials in check. In addition to collective bargaining, action taken by the authorities also helps to curb income inequalities through taxes and public transfer payments. Indeed, Denmark's Gini index is among the lowest of all OECD countries.

This relatively low level of inequality underpins the population's backing for the Danish social model, which is based on secure employment, employee-management dialogue and consent to taxation. That said, certain reforms, including reductions in length of benefit entitlements for the unemployed and the tightening-up of conditions for eligibility for unemployment benefits, may upset the balance of the model. Employees may push for a more protective legislative and regulatory environment if they believe their security is no longer assured, which carries the risk of undermining the labour partners and eroding Denmark's labour market model.

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<sup>3</sup> According to the OECD, employees' average working week stood at 32.1 and 36.8 hours in Denmark and across the OECD respectively in 2016.

<sup>4</sup> 75% of the active population belongs to an unemployment insurance fund, but just 45% of the 10% of employees paid the lowest wages

<sup>5</sup> In 2014, the average monthly salary was DKK 31,380 at businesses with over 10 employees according to Eurostat.

<sup>6</sup> One day of work carries entitlement to two days of benefits.

### The unemployment insurance system and employment policies

Employees sign up to an unemployment insurance fund on a voluntary basis<sup>4</sup>. The benefits are generously funded by the Danish government, however.

The benefit entitlement depends more on income than on the number of hours worked. A job seeker must have declared a salary of at least DKK 223,428 over the past 36 months to receive unemployment benefits for two years, while those who earned more than DKK 18,619 per month must have had a professional activity for at least 12 months<sup>5</sup>.

Unemployment benefits are calculated based on the highest 12 salary payments received over the most recent 24-month period so as not to unduly penalise beneficiaries in low-paid jobs.

Employees have an employment account, into which they can save working hours carried out during the benefit entitlement period and extend their benefit entitlement for an additional year at most<sup>6</sup>.

The unemployment benefit works out at 90% of the salary paid up to a cap of DKK 849 per day. Graduates with dependent family members receive 82% of the maximum rate, and others 71.5%. The amount of benefits is not adjusted to encourage job seekers to take on temporary employment.

A day is lost if the beneficiary of the unemployment benefits has not been active professionally for 20 days (or 150 hours) in a given four-month period. Benefit entitlement is reduced by one month if a person has received unemployment benefits for four months in the previous eight years.

#### Employment policies

Job seekers have to stay in regular contact with the authorities. They have to talk to the unemployment insurance fund after their first two weeks of unemployment and to the employment agency after six weeks. A monthly meeting then takes place during the first six months of unemployment with the employment agency. After that, the meetings are scheduled every three months.

This is part of a support-based approach intended to provide guidance to those on unemployment benefits. The support, retraining and professional skills programmes, plus subsidised employment to enhance job seekers' capabilities, are also part of this booster approach.

Job seekers aged between 30 and 49 years old out of work for over six months have the right and the obligation to benefit from a booster programme. Those under 30 or over 50 qualify for the booster programme after a period of 13 weeks' unemployment.

Young people aged under 25 without adequate training (and no children) are obliged to undergo training on the same terms and conditions as students. The amount of unemployment benefits is cut by 50% after a period of 6 months' unemployment to align them with the study grants and provide a greater incentive for young job seekers to return to training.

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