

Analysis of the Operational Effects of Danish Flexicurity Model

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Abstract

European Union's flexicurity model is an operational method that reinforces the elasticity of the labor markets of its member countries and improves the employment level. This model emphasizes that flexibility and security are not contradictory but mutually supplementary and supportive. Labor policies constituted by all countries consider the trade-off between the flexibility and security to coordinate roles of the labor policies. The flexicurity model shows its validity in solving the employment problems in member countries of European Union, especially in Denmark. This paper first introduces the connotation of European Union's flexicurity model, highlights its flexibility and safeguarding; second, it introduces the operational method and results of European Union's flexicurity model in Denmark; finally, this paper considers the features of the disadvantaged groups in China and proposes the way to construct the flexicurity system of the employment of disadvantaged groups from the perspectives of choosing the balance point of the flexicurity model, strengthening education and training system, reinforcing unemployment insurance, implementing active labor market policies, establishing and improving social dialogue mechanism, etc.

Keywords: European Union's flexicurity model, Flexibility, Security, Disadvantaged groups, Employment

Employment not only relates to the realization of the laboring rights of the laborers, but also concerns the economic development of the whole country and social stability. Therefore, all countries regard promoting full employment and reducing the unemployment rate as one of the macroeconomic goals. Promoting the flexicurity model was put in the first place in European Union's agenda during 2008-2010 by the European Commission in order to solve the unemployment problem effectively. Currently, Danish, Holland, Germany, Spain, Italy, Austria, Finland and other countries have already implemented the flexicurity model and achieved significant results, especially in Danish, where the Phillips Curve is almost close to the horizontal line and the structural unemployment drops greatly.

1. Connotation of European Union's flexicurity model

Connotation of European Union's flexicurity model is established on the hypothesis that flexibility and security are not opposed to each other but supplement and even support to each other. However, scholars have not reached a consensus on this concept. Now the most accurate and frequently quoted concept is proposed by Wilhagen and his colleagues, which states that as a policy strategy, on one hand, it needs to strengthen the flexibility of the labor market, work organizations and labor relations; on the other hand, it needs to increase the security of employment, jobs and income, etc, especially the security of the disadvantaged groups. (Note 1 & Note 2) Based on this definition, the flexicurity must meet two conditions. The first condition is that flexibility and security must be the results obtained on the basis of effort and coordination and it is not an isolated advocacy; second, the flexicurity must include the labor market of disadvantaged groups and should not concentrated on the "insiders" of the labor markets.

1.1 Flexibility of European Union's flexicurity model

According to the classification of J. Atkinson, flexibility of European Union's flexicurity model can be divided into four categories, namely, external numerical flexibility, internal numerical flexibility, functional flexibility and wage flexibility. First, external numerical flexibility refers to the degree of employing and dismissing workers and to what extent contracts with fixed period are used; second, internal numerical flexibility refers to

the difficulty of changing numbers of employees of the enterprise on the premise of no adding or dismissing of the employees; third, functional flexibility means the difficulty of changing the work organization or the adaptation ability to challenges of workers and enterprises (such as the job rotation, etc); fourth, wage flexibility means the flexibility of wage that adjusts according to the economic situations.

1.2 Security of European Union's flexicurity model

Security of European Union's flexicurity model is correspondent to the above mentioned flexibility, which includes job security, employment security, income security and combination security (Note 3). First, job security, which means the security of being able to stay in the same job, and which can be expressed via employment protection and tenure with the same employer. Second, employment security, which means security of staying employed, though not necessarily in the same job; here the general employment situation, active labor market, training and education policies play a key role. Third, there is income security, which relates to having secured income in case of unemployment through the public transfer income systems, such as the unemployment insurance system. And finally, combination security, the possibilities available for combining working and private life, e.g. through retirement scheme, voluntary-sector unpaid work, etc.

2. Operational mechanism of Danish flexicurity model

All European Union countries pay much attention to the trade-off between the flexibility and security, while different countries have different focus, and the specific security forms are diverse. Danish flexicurity model dates back to the compromise and conclusion of *General Agreement* in September 1899, which got its early form at the end of 1960s, and which is consisted of the flexible labor market and generous social welfare system. Until 1933 when the active labor market policy was implemented, the commonly described "golden triangle" model (see figure2-1) came into being, which combines flexible labor market, generous social welfare system and active labor market policy. This model has high external numerical flexibility, high income security and job security. Danish flexicurity model created "employment wonder" and aroused great attention from the world.

2.1 Flexible labor market --- external numerical flexibility

Flexibility of Danish labor market mainly expressed by high external numerical flexibility, i.e. the employer can dismiss and employ the worker very easily. According to the research of the World Bank in 2003, employment flexibility of Denmark ranks the second and dismissal flexibility of Denmark ranks the third in EU member countries; among 130 countries in the world, flexibility of Danish labor market is secondary only to America and Singapore. In a word, flexibility of Danish labor market can be described as: a very short termination notice, relatively long probation period and relatively low dismissal compensation.

Flexibility of the labor market is mainly reflected in two aspects: firstly, high mobility of labor market. In 2005, average tenure of work of Danish employees are only 8.5 year, and 70% of Danish people think that it is good to change their jobs every few years, and this proportion is much higher than that of the EU, which is only 40%. In Denmark, there are about 30% mobile employees, and 20%-25% of them will become unemployed, but the majority find their own way back to a new job very quickly; secondly, The intervention of Danish government is very limited. High flexibility of labor market has close relation to little government intervention. There is no employment protection law in Denmark, when the employee loses high efficient production ability and doesn't fit for the present job, the employer can dismiss the employee at any time, which is free from the government intervention. Almost all agreements are reached through the negotiation between the employer and strong organization of the employees. According to the employment protection report of OECD in 2004, Denmark is one of the 1/4 member countries that have minimum dismissal restriction. (Note 4)

2.2 Generous social welfare system— income security

Flexible labor market is supported by generous social welfare system. Denmark has complete unemployment protection laws, and over 80% of Danes join in the unemployment insurance system. By joining in the unemployment insurance system, the unemployment problem can be solved properly and in time. In Denmark, people who become unemployed can receive the unemployment benefit from the first day of unemployment, which is 90% of their previous income during the previous 12 weeks, and they can receive this benefit for 4 years. To be eligible for this system, a person must have worked for 52 weeks during the last 36 month. For part-time workers, the required period is 34 weeks. For those who did not meet these conditions, there are other compensation systems, and the loss is about 60%.(Note 5) In general, the generous social welfare system of Denmark prevents a large number of Danes from falling into poverty. According to the statistics of the statistical office of the European Union in 2005, the risk rate of poverty in Denmark falls from 29% in 2001 to 10%, which is a little lower than the risk rate of most of the other European countries.

2.3 Active labor market policy --- job security

The active labor market policy mainly includes: helping the unemployed to find new job quickly by training; motivating the unemployed to seek jobs actively; creating more jobs.

Danish active labor market policy includes two aspects: (1) implementing the activation plan. Denmark divides the eligibility period for unemployment benefits into two periods: a passive period in which there was no obligation of participating in job activation programmes, and an active period in which the unemployed were required to take part in activation programmes for 75% of the time; meanwhile, the passive period was shortened from 4 years on January 1, 1994 to 1 year gradually. Since July 1, 2003, there has been no distinction between the passive and the active periods. The obligation to join in the compulsory full-time activation plan, participate in the active labor market, accept vocational training, education, practice in the enterprise, job rotations and so on now applies from the first day of unemployment so as to improve the employment ability of the unemployed. (2) implementing regional labor market policy. Denmark divided its labor market policy into 14 counties from the central to the local. With the participation of the “social partners”, local labor policy is formulated according to the development situation of local labor market to improve the pertinence and validity of the labor market policy.

2.4 Relations between the three elements

Danish flexicurity model realizes a good balance between flexibility and security of the labor market through the flexible labor market, generous social welfare system and active labor market policy. Among these three elements, flexible labor market and generous social welfare system are main axis of the flexicurity model, which form the foundation for the flexibility of labor market; active labor market policy is the key factor that determines the unification of the flexibility and the security of labor market and has very important incentive and promotion effect.

Besides, Danish flexicurity model has indispensable relation with large amount of public expenditure. In 2004, the share of labor market policy in the GDP in Denmark is 4.49%, and the active labor market policy expenditure represents 1.83% of the GDP, which is higher than Sweden, France, United States and other countries. (See table 2-1) (Note 6).

3. Operational effect of Danish flexicurity model

Danish flexicurity model combines the flexibility of employment and dismissal, relatively abundant social benefits and large scale active labor market policy, which results in low unemployment rate, relatively high employment rate and good social economic effect.

3.1 Decreasing of the unemployment rate

The oil crisis in 1970s caused a continuous rise of the unemployment rate in Denmark. Until the active labor market policy was implemented in 2004, the unemployment rate in Denmark decreased from 12% at the beginning of 1990s to about 5.5% in 2005. (see figure 3-1), which is lower than the level in EU-15 countries and Germany (see figure 3-2).

Insert Figure 3-1 and Figure 3-2 Here

According to the statistics of OECD, the unemployment rate in Denmark decreased to 3.9% in 2006, the unemployment rate of the youth is 7.7%, and long-term unemployment rate is 0.8% (Note 7), which is obviously lower than US unemployment level, 4.6%. Up to June 2008, the registered unemployment rate in Denmark is lower than 2% (Note 8). Meanwhile, under the influence of the economic crisis, the unemployment rate in all countries keeps rising, while the unemployment in Denmark is lower than EU-15 countries, France, United Kingdom, United States and Germany (see table 3-1) in the same period, which only comes next to the five member countries in EU.

Insert Table 3-1 Here

3.2 Increasing of employment rate

Danish flexicurity model caused the high growth of employment rate. From 1997 to 2008, Danish employment rate keeps more than 70%, which exceeds the goal of realizing 70% employment rate in 2010 in Lisbon Strategy of EU and is far higher than the employment level of EU-15 countries, US, UK, France, Germany, etc in the same period (see table 3-2).

Insert Table 3-2 Here

In addition, the employment rate of Danish women grows even faster, which exceeds the employment level of EU-15 countries, US, UK, France, Germany, etc (see table 3-3).

3.3 Social economic aspect

The most commonly used index to measure economic situation of a nation is the per capita GNP. In 2003, Danish per capita GNP after adjustment by the purchase power index ranks the second in EU 15 countries, which is second only to Ireland (see figure 3-3). What's more, there are other indexes to measure economic situation. Danish inflation rate in 2008 is 3.4%; foreign debt is lower than the level in the past 15 years; public debt is also moderate (Note 9). Denmark was listed as the most attractive country in the world from the perspective of the investors by British weekly "The Economist" in Apr 2005. Meanwhile, Denmark ranks the top five in the list of international competitiveness submitted by world economic forum in recent years.

In order to avoid the one-sidedness of the economic indexes, such as the per capita GNP, international organization, especially the United Nations has formulated more complicate index to reflect the social development level of a country more intuitively. According to the statistics, Denmark ranks the 13th among 191 countries based on the human development indexes such as educational level, life expectancy and purchase power (Note 10). Besides, the unfairness in Denmark is the lowest in OECD countries, and Danish government sustains very high public expenditure to prevent its residents from falling into poverty.

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Notes

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Note 7. Alka Obadić. The Danish flexicurity labour market policy concept, 2009.

Note 8. Bengt-Åke Lundvall. The Danish Model and the Globalizing Learning Economy, March 2009.

Note 9. Bengt-Åke Lundvall. The Danish Model and the Globalizing Learning Economy, March 2009.

Note 10. Bengt-Åke Lundvall. The Danish Model and the Globalizing Learning Economy, March 2009.

Table 3-1. Unemployment rate in Denmark, 15 countries of EU, France, UK, US and Germany in 2009 (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
EU(15 countries)	8.2	8.4	8.7	8.9	9.0	9.1	9.2	9.2	9.4	9.5	9.5	9.6
Denmark	4.4	4.7	5.2	5.7	5.9	6.1	6.1	6.0	6.5	6.9	7.2	7.4
France	8.7	8.9	9.0	9.2	9.3	9.4	9.5	9.6	9.7	9.9	10.0	10.0
UK	6.8	7.1	7.2	7.5	7.7	7.8	7.8	7.8	7.8	7.8	*	*
US	7.7	8.2	8.6	8.9	9.4	9.5	9.4	9.7	9.8	10.1	10.0	10.0
Germany	7.2	7.3	7.4	7.6	7.6	7.6	7.6	7.6	7.6	7.5	7.5	7.5

Source: Eurostat

Table 3-2. Employment rate of workforce in Denmark, 15 countries in EU, France, UK, US and Germany, 1997-2008 (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU(15 countries)	60.7	61.4	62.5	63.4	64.1	64.2	64.5	64.9	65.4	66.2	66.9	67.3
Denmark	74.9	75.1	76.0	76.3	76.2	75.9	75.1	75.7	75.9	77.4	77.1	78.1
France	59.6	60.2	60.9	62.1	62.8	63.0	64.0	63.8	63.7	63.7	64.3	64.9
UK	69.9	70.5	71.0	71.2	71.4	71.4	71.5	71.7	71.7	71.6	71.5	71.5
US	73.5	73.8	73.9	74.1	73.1	71.9	71.2	71.2	71.5	72.0	71.8	70.9
Germany	63.7	63.9	65.2	65.6	65.8	65.4	65.0	65.0	66.0	67.5	69.4	70.7

Source: Eurostat

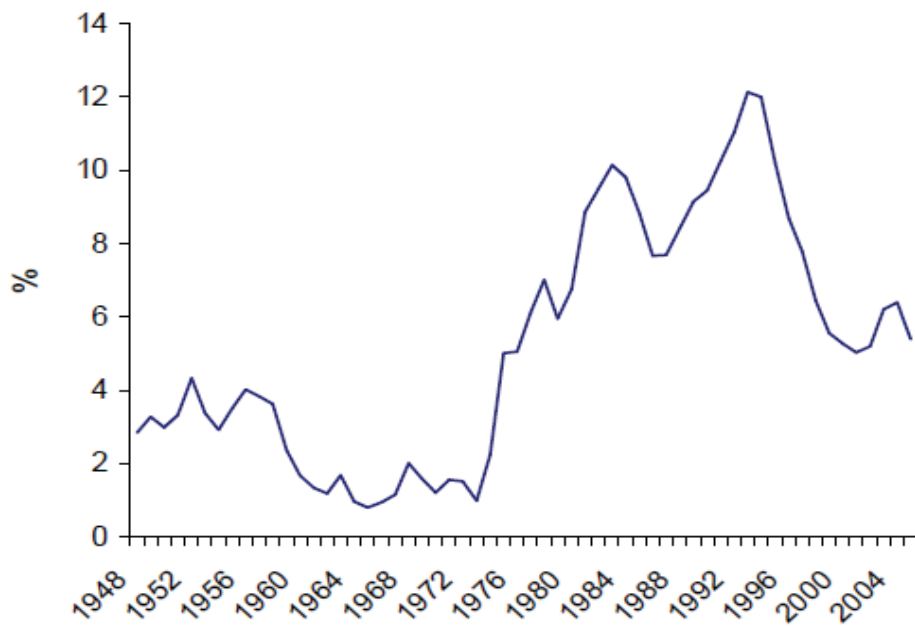


Figure 3-1. Unemployment rate in Denmark, 1948-2005

Source: Torben M. Andersen. Flexicurity – the Danish labour market model. April 2006

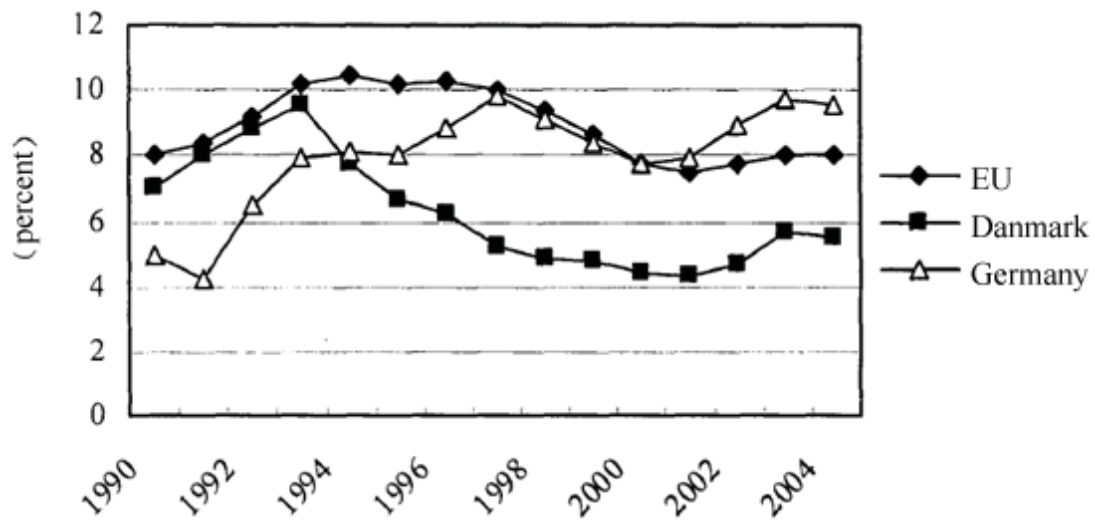


Figure 3-2. Comparison of the unemployment rates of Denmark, Germany and EU-15 countries

Source: Eurostat