

FLEXICURITY – PROS AND CONS OF THE MODEL

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ABSTRAKT

Koncept flexikurity reaguje na současný trend EU spočívající ve snaze zajistit vysokou míru zaměstnanosti a udržitelnost fiskálních systémů. Koncept byl v této podobě poprvé aplikován v Dánsku počátkem 90. let, kde výrazně snížil míru nezaměstnanosti. Současně vzrostla výrazně zaměstnanost téměř na hranici plné zaměstnanosti. Od té doby se tento koncept a jeho prvky implementují v ostatních členských státech EU za účelem zlepšení fungování trhů práce. Každý model má ale vedle pozitiv i svá negativa. V článku se proto nejdříve zaměříme na prvky modelu a principy jeho fungování. Druhá část se zaměřuje na specifika dánské ekonomiky, která je nutné vzít při aplikaci modelu na zřetel. V závěru se zaměříme na rizika související s aplikací modelu v jiných ekonomických podmínkách. Cílem článku je popsat koncept komplexněji včetně jeho rizik, která bývají často při analýzách opomíjena, která ale mohou mít při implementaci modelu značné dopady.

KLíčové slova: flexikurita, trh práce, Dánsko, nezaměstnanost

ABSTRACT

Flexicurity reflects the basic current trend in the EU of guaranteeing high levels of employment and the sustainability of national fiscal systems. It was introduced in Denmark during the 1990s and helped reduce the unemployment level significantly. At the same time, employment rates were boosted, with almost full-employment being achieved. Since then the concept and its elements have been implemented in other Member States to improve their labour market functioning. Of course every model also has its negatives. In this paper we focus first of all on the elements of the model. The second section sees us analyze the special conditions in Denmark, especially the macro-economic environment which enables the concept to function. The risks of the model are then mentioned in the third part. The aim of the article is to describe the concept of flexicurity more fully and the risks that are often neglected in analyses, but that can have a significant impact on the implementation of the model.

Key words: flexicurity, labour market, Denmark, unemployment

JEL KLASIFIKÁCIA: J01, J08, J21

INTRODUCTION

The concept of flexicurity was introduced in Denmark in the 1990s and helped reduce unemployment levels, and especially long-term unemployment, quite significantly; indeed full employment was very nearly achieved. This made the model very popular in Member States and at the EU level as a possible solution in making rigid European labour markets more flexible. Despite a reduction in the unemployment rate, and especially in long-term unemployment, about 900,000 people (or 25 % of the adult population) temporarily or permanently claim social security benefits¹⁰⁹, which partly makes the picture of success somewhat cloudier.

The pressure placed on high-efficiency, stress and the rising pace of work mean that people are pushed from the labour market as a result of illness and are excluded not as the

¹⁰⁹ Bredgaard, T., Larsen, F., *The transitional labour markets*, p.5

unemployed, but as the disabled, as participants of flexible (state-subsidised) jobs or as the early-retired. In this paper we focus first of all on elements of the model. In the second part we analyze the special conditions in Denmark which enabled the concept to function. Finally, in the third section, we describe the negatives of the model. The aim of the article is to describe flexicurity more fully and to focus on the ‘other’ aspects of the model which are mentioned less often than the positives.

1 Flexicurity and its elements

Flexicurity, a combination of the words flexibility and security, reflects the basic current trend of guaranteeing high levels of employment and the sustainability of national fiscal systems in welfare states. The fundamental idea behind the concept of flexicurity is that flexibility and security are not contradictory to one another, but can be mutually supportive in many situations. As a concept, flexicurity was created in the Netherlands in the mid-1990s based on a number of specific conditions, the aim of Dutch flexicurity legislation being to correct the imbalance between an inflexible labour market for core workers and insecure labour market situations for the contingent workforce.

The concept was more broadly used in Denmark in the 1990s and helped reduce unemployment levels significantly. The basic idea of the model comes from what is known as the Golden Triangle and focuses on a combination of adaptability to a changing international environment and solidaristic welfare system. It combines a liberal and flexible labour market with low barriers to (re)enter/leave a generous welfare system. A high degree of mobility from employer to employer is linked to the low level of employment protection on the Danish labour market. Employment protection will be discussed more detail in the second part of the paper.

Thanks to the generous unemployment support provided, the Danes are not afraid of changing jobs. To illustrate, unemployment benefit for low-income groups can reach up to 90 % of their previous income. There is also a maximum benefit rate set by state; in 2006, for example, it was 90 euro a day for a full-time worker and was paid for 5 days a week. The maximum unemployment benefit in 2006 was more than 23 000 euro a year¹¹⁰. This indicates that unemployment benefit is more attractive to low-income groups where the difference between income and benefits is comparatively lower than for high-income groups. The question is whether this allows low-income groups to change job more easily or if the effect is rather the opposite (that unemployment lasts longer).

It is based on this that we speak of so-called high numerical flexibility – the number of people changing jobs is substantially higher than in the EU. Denmark has the highest figures within the EU in terms of the percentage of employed people each year affected by unemployment and receiving unemployment benefit or social assistance (around 20 percent). However, the majority of these unemployed people manage to find their own way back to work.

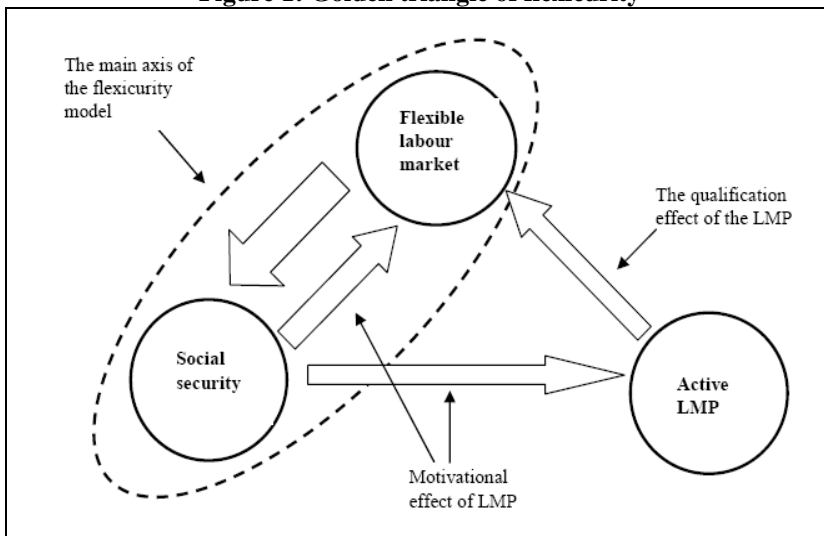
The third element is an active labour market policy (ALMP), which allows those who do not enter the labour market within a short period of to requalify. There are two important effects here. The first is that, as a result of active measures, the participants in various programmes (e.g. job training and education) are “upgraded” and therefore have a better chance of getting a job (qualification effect). Secondly, these measures can have a motivational effect, with unemployed people approaching the time of “activation” perhaps intensifying their search for ordinary jobs if they consider activation a negative prospect. The golden triangle of flexicurity is illustrated in Figure 1.

The Danish employment system is defined as a “hybrid”. It is a system that includes a very liberal feature – non-restrictive employment protection legislation that is typical of Anglo-

¹¹⁰ Madsen P.K., *Flexicurity, A new perspective on labour markets and welfare states in Europe*, p. 8

Saxon labour markets and a generous welfare regime that is usual in Scandinavian countries. The system is generally accepted in Denmark and is based on public consensus. Flexicurity stresses the potential for win-win-outcomes in situations which are traditionally conceived as being characterised by conflicting interests¹¹¹. During the so-called Danish job miracle, the unemployment rate fell by 50 % from 10 % in 1993 to 5 % in 2002¹¹². This is without doubt a very good result, one that saw the flexicurity model become a Danish “export” at the end of the 1990s, with other EU states starting to introduce this model to their own employment systems.

Figure 1: Golden triangle of flexicurity



Source: Madsen, P. K., (2006), *Flexicurity, A new perspective on labour markets and welfare states in Europe*, CARMA Research Papers 2006:3, University Aalborg, p. 8

The EU implemented the flexicurity concept in the Lisbon Strategy in 2006. The Lisbon strategy was launched in 2000 by the European Council in Lisbon¹¹³ with the aim of improving EU competitiveness within the world economy. Since 2004 the Strategy has primarily focused on economic growth, growth that can only be created if there are enough jobs with high productivity. Otherwise EU states would not be able to guarantee their current welfare standards into the future. These circumstances meant that the flexicurity concept was welcomed in the EU with open arms.

Then in 2006, the spring European Council¹¹⁴ stressed the need to develop comprehensive policy strategies to improve the adaptability of workers and enterprises more systematically in National Reform Programmes. It noted that the Commission, together with Member States and social partners, would explore the development of a set of common principles on flexicurity. As the Commission further noted, “Common principles of flexicurity will provide Member States and the European Union with a common understanding of flexicurity and the challenges it aims to address. They will strongly underline the involvement of the EU in securing Europe’s social and economic future”¹¹⁵. Another paper on this topic was

¹¹¹ Ibid, p. 13

¹¹² Madsen P.K., *A Danish model of Flexicurity – A Paradise with some Snakes*, p. 2

¹¹³ European Commission, *European Council in Lisbon, Presidency Conclusions*, p. 2

¹¹⁴ European Commission, *European Council in Brussels, Presidency Conclusions*, p. 3

¹¹⁵ European Commission, *Flexicurity Pathways*, p. 9

published in 2007 by DG Employment¹¹⁶. This paper highlights examples of good practice already having been applied in Member States.

It was also in 2006 that the EU defined so-called pathways to improving the functioning of labour markets¹¹⁷:

- Pathway 1: Reduce asymmetries between non-standard and standard employment by integrating non-standard contracts fully into labour law, collective agreements, social security and life-long learning, and consider making employment in standard contracts more attractive to firms;
- Pathway 2: Enhance companies' and workers' adaptability by developing and strengthening transition security;
- Pathway 3: Address opportunity and skills gaps among the workforce by broadening and deepening investments in skills;
- Pathway 4: Enhance employment opportunities for benefit recipients, prevent long-term welfare dependence, regularise informal work and build up more institutional capacity for change.

As we can see, the EU pathways correspond in general to the elements of the Danish golden triangle. The first two pathways deal with active labour market measures, the third and fourth include elements of ALMP in declaring a tendency to prefer active labour market policy to passive. The first element, a flexible labour market, is described the most, whereas the general welfare system is not considered at all. This signalizes where the weaknesses in most European labour markets are to be found.

Further measures came in 2007, with the EU launching Employment Guidelines that incorporated the flexicurity concept. Since then (2007), the EMCO (Employment Committee) has supervised and monitored the labour market situation within Member States. Results and progress are analyzed based on given indicators from the National Reform Programmes published by the Member States on a yearly basis. Flexicurity is primarily a matter for Guideline 21 - Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners and indicators such as "Transition between non-employment and employment by type of contact"¹¹⁸.

The EU now faces many external and internal challenges (meaning threats in EU language) and does its best to mobilize as many human resources as possible and adapt the labour market for disadvantaged groups on the margin (e.g. older workers, the disabled, youth, etc.). All these steps aim to achieve high (and best of all full) employment.

Flexicurity also reflects another feature of today's society - keeping people employed in jobs with low requirements on the labour force economically active. Changing employment structures mean that requirements on the labour force are rising. In the past, most people worked in agriculture, with plenty of jobs demanding few skills. Industrialization and later the tertialisation process meant that more skills were needed to do the jobs involved. What is more, jobs with low requirements on the labour force are disappearing from Europe because of the high cost of the European labour force.

Today, most of the EU labour force is employed in the service sector. In 2007, in fact, almost 70 % of jobs fell within the tertiary sector in EU-15 and about 60 % in EU-12. In general we can consider European labour markets to be societies where IT and language skills are broadly expected. The so-called "knowledge society" has been given leitmotif status in many of the Commission's papers in recent times. As illustrated above, jobs with high requirements,

¹¹⁶ European Commission, *Towards Common Principles of Flexicurity*, p. 8

¹¹⁷ European Commission, *Flexicurity Pathways*, 23

¹¹⁸ EMCO, *Employment Guidelines 2009*, p.3

education demands and labour productivity will prevail in the EU in the long-term. Given that abilities and skills are distributed in the very same way in every society, the question is how to keep those who are less educated and less productive and that will not be able to keep the pace economically active. Flexicurity would now seem to be a workable (although not optimal) solution to this problem due to its activation policies, at least in terms of the cost of the highly productive.

2 Special features of the Danish economy

All the measures of the model mentioned above and the model as a whole combine to offer a very positive impression. The unemployment rate in Denmark was reduced substantially, as was long-term unemployment. At the same time, the employment rate rose to become one of the highest in the EU¹¹⁹, reaching almost 80 % in 2008. Of course, there are some aspects which allow this concept to function in Denmark and which are typical of this economy. In the event that flexicurity is implemented in other economies, the concept need not necessarily have a positive effect.

Table 1: EPL in 2008

Type of contract	Regular	Temporary	Overall EPL strictness	
	2008	2008	1998	2008
Austria	2.4	1.5	2.4	2.2
Belgium	1.7	2.6	2.5	2.5
Czech Republic	3.0	0.9	1.9	2.0
Denmark	1.6	1.4	1.9	1.8
Finland	2.2	1.8	2.2	2.0
France	2.5	3.6	2.8	2.9
Germany	3.0	1.2	2.6	2.4
Greece	2.3	3.1	3.5	2.8
Hungary	1.9	1.4	1.5	1.7
Ireland	1.6	0.6	1.2	1.3
Italy	1.8	2.0	3.1	2.4
Netherlands	2.7	1.2	2.8	2.1
Poland	2.1	1.8	1.9	2.2
Portugal	4.2	2.1	3.5	2.9
Slovak Republic	2.5	0.4	2.2	1.8
Spain	2.5	3.5	3.0	3.9
Sweden	2.9	0.9	2.5	2.2
United Kingdom	1.1	0.4	1.0	1.1
OECD total	2.1	1.8	2.2	2.1

Source: OECD, http://www.oecd.org/document/22/0,3343,en_2649_39023495_43221014_1_1_1_1,00.html#ep1 [12.04.2010]

One characteristic of the Danish labour market is its **low employment protection strictness** for various groups of employers (regular workers, temporary workers). This strictness, measured by the **Employment Protection Legislation (EPL) index**, was constructed by OECD. EPL indicates how easy or complicated it is to hire and fire the workers in a

¹¹⁹ Eurostat, *Eurostat Yearbook, Europe in Figures*, 2008, p. 256

particular economy. The figure ranges from 0 (no protection) to 6 (maximum protection). In other words, the higher the figure, the higher the employment protection. Table 1 shows the EPL index for all EU Member States who are also OECD members. As we can see, the Danish economy has lower employment protection in comparison with the European standard (overall strictness in Denmark is 1.8). Barriers are low for all employer groups, **with small differences in the employment protection** regime. In the EU, only UK and Ireland had a lower EPL value. The highest employment protection was found in southern Europe (Portugal, Spain and Greece).

Were other Member States to incorporate the flexicurity model into their economies, they would have to reform their labour codes, reduce employment protection and reduce the differences between various groups of workers on the labour market. This measure is also found in EU Pathway 1. The problem here is rather the realization and reform of national labour codes, although the Danish case shows that lower employment protection does not harm employees.

Despite the high number of workers affected by unemployment each year (around 20 percent), the majority of these unemployed people manage to find their own way back to work. According to the online database of the Danish statistical office, of a total of 260,000 workers affected by unemployment in 2008 around 210,000 managed to find a job within 4 months and only 2000 remained unemployed for longer than 10 months¹²⁰.

Another specific is the difference in the distribution of responsibilities of social partners, namely unions. In Denmark, social security is based on the so-called **Ghent system**, a system in which the unions were historically responsible for paying unemployment benefit. This explains the high levels of trade union membership in Denmark (about 80 % of workers) and in the other Scandinavian countries (Finland, Sweden) where this system more or less exists. Today, 31 state recognised unemployment insurance funds operate in Denmark, **most of these unemployment insurance funds being associated with one or more trade unions**. Workers consider membership of a trade union and the associated unemployment insurance fund to be a package¹²¹. Members of these unemployment insurance funds are therefore only obliged to pay a fixed membership contribution, independent of the actual level of unemployment.

It was in 1969 that the state assumed responsibility for financing the extra costs of unemployment benefits that were caused by increases in unemployment (the principle of public financing “at the margin”). The government’s share is 50-80 % of the total cost of unemployment benefit depending on the number of unemployed. As we can see, the unions played quite an important role in distributing unemployment benefit, which was paid from their own funds (today’s insurance funds). This meant that it was in the general interest of the unions to reduce the number of unemployed people because a rising number of unemployed meant rising costs for their insurance funds. As part of the Ghent system, unions have a strong bargaining position in terms of collective agreements, but at the same time their responsibility is traditionally higher due to the obligation to distribute unemployment benefit.

Last but not least, Denmark invests considerable sums into activation policies and continuously adjusts the economy to keep pace, to ensure future competitiveness. According to the OECD, Denmark invested about 1.3 % GDP in 2007 in active labour market policy (ALPM) – the highest rate in the EU - and 1.5 % GDP in passive measures. The OECD average,

¹²⁰ Statistics Denmark, statistical website database [10.4. 2010] <http://www.statbank.dk/statbank5a/default.asp?w=1280>

¹²¹ Madsen P.K., *Flexicurity, A new perspective on labour markets and welfare states in Europe*, p.3

meanwhile, is 0.6 % GDP for ALPM and 0.8 % for passive measures¹²². According to the same database, the Czech Republic and Slovakia only invested 0.2 % GDP in ALMP, which is the lowest figure in the OECD.

Furthermore, Denmark launched the **Globalisation Fund**¹²³ in 2006, meaning that almost 40 billion DKK (about 5.2 billion EUR) will be provided for education, research and entrepreneurship until 2012. Such a project is rare within the EU and will enable Denmark to create an educated, skilled labour force. Figure 2 shows how the resources in the fund will be distributed. Most money is allocated to research and development (about 50 %) and measures to ensure that young people complete their education (about 25 %). All these measures are in line with the general recommendation of the Commission’s papers on competitiveness.

What is more, Denmark also supports the **demand side** of the labour market and is considered to be a state in which it is easy to run a business. According to the World Bank’s “Doing Business 2009”, Denmark was ranked in 5th place worldwide and 1st place in Europe¹²⁴. Starting-up a business only takes 5 days and the whole process is not subject to charges at all. As in other Scandinavian economies, the business environment here is also very liberal. According to the Index of economic freedom, which covers 10 specific freedoms, such as trade freedom, property freedom and investment freedom, Denmark was 8th worldwide and 2nd in the EU (after Ireland) in 2009.

Figure 2: The distribution of resources in the Globalization Fund

	2007	2008	2009	2010	2011	2012
DKK million 2007 (2007 prices)						
Total	2,000	4,000	6,000	8,000	9,000	10,000
Research and development	1,000	2,000	3,300	4,600	4,900	5,200
Innovation and entrepreneurship	350	400	400	500 ¹	500 ¹	500 ¹
All young people to have a youth education	308	781	1,220	1,702	2,232	2,620
Increased tertiary education	200	285	537	650	1,147	1,461
Strengthened adult and continuing education initiative	141	534	540	547	217	217

Source: *NRP Denmark 2007*, p. 20

If we summarize the specifics of the Danish economy and its labour market features, we should note that the flexicurity concept is very successful **thanks to the particular macroeconomic environment**. Here there is low protection of workers **across all employer groups**, which allows businesses to react flexibly to situations. Note that this is based on public consensus. The position of unions in the economy means that it is the unions that bear responsibility for the payment of unemployment benefit. It is therefore in their interest to create such a framework within which their members are as employable as possible: after all, high unemployment means high costs for the insurance funds traditionally run by unions.

¹²² OECD, EPL strictness, [04.04.2010] available on: <http://www.oecd.org/document/22/0,3343,en_2649_39023495_43221014_1_1_1_1,00.html#epl>

¹²³ *National Reform Programme 2007 Denmark*, p. 20

¹²⁴ World Bank (2009), *Doing Business 2009, Economy Rankings*, [14.04.2010] available on: <http://www.doingbusiness.org/EconomyRankings/>

Denmark’s policy supports both the supply and demand sides of the labour market. Here you will find the highest level of investment in active labour market policy measures in the EU, major investment in research and development and huge financial resources available for education and entrepreneurship as part of the Globalisation Fund. Denmark is also an attractive place to *run* a business. Starting a business only takes 5 days and is without any charge. The business environment is liberal and trade, investment and other freedoms are broadly guaranteed. So before implementing flexicurity measures in other economies, we should be aware that this concept alone might not help substantially without broader economic reform.

3 The “threats” of the model

Before focusing on the threats of the flexicurity model, we should first consider the labour market situation shown in Table 2. If we compare the Danish data with the EU-27 averages for 2008, this confirms the usual perspective of the labour market. As shown in the table below, the employment rate is substantially higher than in the EU, even if we use full-time employment equivalents. In any case, the difference between the employment rate and employment in FTE in Denmark and the EU indicates that part-time jobs in Denmark make up a relatively higher percentage of total employment than in the EU. This is important to note if we realize that the more people work, the more they contribute to public budgets. The trend of boosting the employment rate with part-time jobs instead of full-time jobs without doubt has a positive effect on total employment, but it does not say much about the total amount of money paid into public coffers (taxes etc).

Table 2: Labour market situation, 2008, in %

	Employment rate, %	Employment rate in FTE ¹ %	Unemployment rate %	Long-term unemployment rate, %	Social protection exp. /GDP (2006) %
DK	78.1	70.3	4.1	0.5	29.1
EU-27	65.9	60.6	7.0	2.6	26.9

¹ Full-time employment equivalent (total hours worked divided by average annual number of hours worked in full-time jobs). The year 2008 was chosen because this was the last year before the economic slow-down that affected labour market indicators significantly throughout the EU-27.

Source: European Commission (2009), *Indicators for Monitoring Employment Guidelines, including indicators for additional employment analysis, 2009 Compendium*

By contrast, the unemployment rate is lower, although according to Eurostat its growth in 2009 was about 3 % lower than the EU average in August 2009. We can also see a huge gap between the Danish and the European long-term unemployment rate, with the Danish the lowest in the EU. At the same time, social protection expenditure measured as a percentage of GDP is only slightly higher than the EU average in Denmark. These figures suggest that the labour market is in perfect condition.

As mentioned in the introduction, despite all these successes, the Danish labour market faces problems and about 25 % of the adult workforce receives some kind of social security benefit on a temporary or permanent basis. If we consider the level of employment in Denmark and that the rate unemployment is one of the lowest in the EU, the only explanation for this impressive figure is that **certain members of the adult population simply do not belong to the group of economically active people or that part of the population is only economically active thanks to additional cost.**

Labour market policies and flexicurity measures in the economy do not exclude workers from the labour market as unemployed, as is usual in most European countries, but rather as sick, disabled or having taken early retirement. This confirms comments on the disappearance of low demand jobs from Europe due to the high cost and the resultant high requirements on productivity and efficiency among the labour force. Because Denmark is one of the most expensive Member States of the EU measured in terms of average wages and earnings, the same trend could also happen in other, currently less expensive countries in the future. As mentioned above, this situation could stem from work-related stress, the increasing pace of work and the demands placed on higher efficiency. Let us now focus on evidence to concern people who remained on the outside of the labour market in 2008, as depicted Table 3.

According to the Danish statistical office, around 20 % of the people in the “outside the labour market” group were registered as unemployed in 2008. As explained above, most of them manage to find a job within 4 months, allowing them to return to the labour market. Another 16 % of people in that same year were involved in upgrading their skills or participating in measures to concern guidance activities¹²⁵. These measures are mainly aimed at young people and people with lower levels of education in order to improve their position on the labour market, providing them with additional skills. This group is temporarily outwith the labour force and is therefore not included either in the unemployed or the employed group. The last group, other recipients, includes people receiving holiday benefits or education integration or on child care leave.

Table 3 – People not ordinarily employed, 2008

Not ordinarily employed ¹ , of which:	256 000
Registered unemployment	20.20 %
Guidance and upgrading	16.40 %
Subsidized unemployment	31.60 %
Other recipients	31.40 %

¹ In Danish statistics called **full-time persons**, so the total number of recipients may be higher due to the part-time jobs

Source: Statistics Denmark, *Statistical Yearbook Denmark 2009, Chapter Labour market*, pp. 4.-5

Subsidized unemployment is also interesting and another third of the people in the “not ordinarily employed” group belong here. Around 81,000 people were part of the group in 2008, almost 50,000 employed in so-called flex-jobs. **Flex-jobs** are state-subsidized jobs for people with lower efficiency and productivity, the aim being to keep the people on the labour market. The remainder, more than 31,000 “full-timers”, comprises adult apprentices, light jobs, business in-service training, etc.¹²⁶ This group of workers are economically active, so boosting the employment rate.

It seems a good idea to support people as economically active, albeit with state subsidies, rather than as recipients of unemployment benefit. Of course the other question is the cost of such support. The statistical yearbook also shows a steep rise in the number of flex-jobs within the most recent decade. In 2000 there were only 9000 jobs, compared with almost 50,000 in 2008. Most workers are part of the 50 to 64 years age group, accounting for more than 50 %

¹²⁵ Statistics Denmark, statistical website database, [12.4.2010]. available at: <http://www.statbank.dk/statbank5a/default.asp?w=1280>

¹²⁶ Ibid.

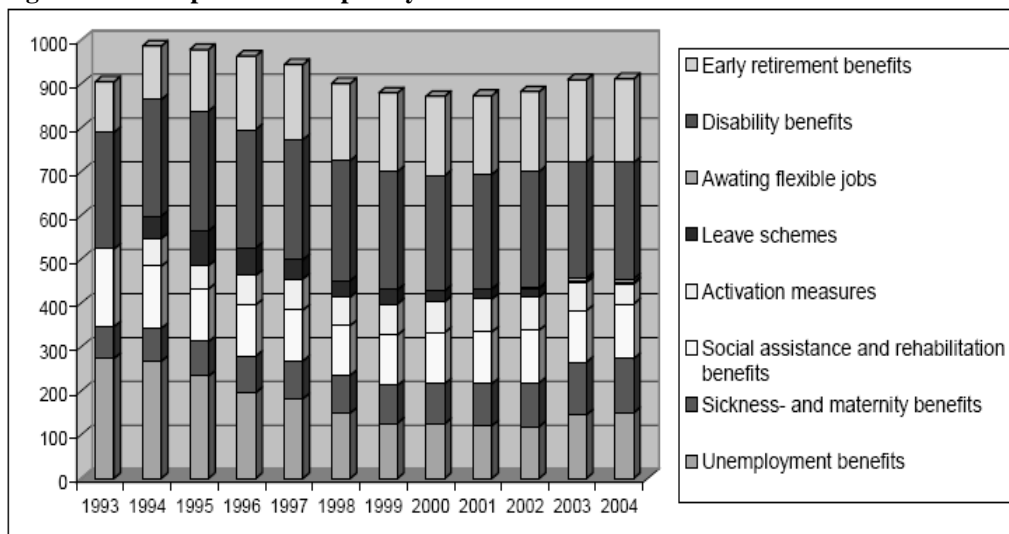
of the full-time recipients of all flex-jobs. This explains the fairly high employment rate of older workers in Denmark, which in 2008 was around 11% higher than the EU average.

Denmark also offers the possibility of taking early retirement thanks to the so-called **Voluntary Early Retirement Scheme**. This scheme was introduced in 1979 and makes it possible for members of an unemployment benefit scheme of between 60 and 66 years of age to withdraw from the labour market before reaching pension age¹²⁷. Workers may only retire earlier if they have been members of an unemployment insurance fund for at least 25 of the last 30 years and have paid voluntary early-retirement contributions during this period. The contribution for full-time insured members in 2006 was DKK 4668¹²⁸.

The benefits paid under this scheme are related to the level of unemployment benefits and do not reflect the individual amounts contributed by the member. This scheme became very popular at the end of the 1990s, but the number of people participating in the programme has declined since 2004. In 2008 there were around 140,000 people entitled to take early retirement. The early retirement scheme is not as popular nowadays as in the previous decade because it goes against the basic rules of flexicurity – to keep people economically active as long as possible (the other argument being the high financial demands of the scheme).

Because the number of people taking early retirement has been in decline since 2004 and at the same time the number of flex-jobs has been rising, especially among older workers, the question is whether the same group of people have not simply moved from the one programme (early retirement) to another (flex-jobs). The fact is that this way of being economically inactive is compensated for by previous extra payments made to the system and that this period of contribution is relatively long. An individual has to start paying extra money at the age of 35 at the latest to be allowed to retire at 60. Furthermore, the amount of money received is not related to the amount of money a particular person has paid into the system, but to the level of unemployment benefit. This might make the scheme seem less attractive, especially for high-income groups.

Figure 3: Development of temporary transfer income 1993 - 2004



Source: Bredgaard, T., Larsen, F., *The transitional labour markets*, CARMA, 2006, p. 12

¹²⁷ Madsen P.K., *Distribution of Responsibility for Security and Labour Markets Policy, Country Report: Denmark*, p. 20

¹²⁸ *Ibid*, p. 21

There are in any case other groups of the adult population outside the labour market. Development within the particular groups of temporary transfer recipients is depicted in Figure 3. Work-related stress means that health care and the associated costs are relatively high in Denmark. In 2006, for example, around a quarter of sickness-related absences were caused by stress according to the Danish National Institute of Occupational Health¹²⁹. The number of people outside the labour market declined at the end of the 1990s and after 2000 thanks to a reduction in the number of people unemployed, something we can consider a result of the implementation of flexicurity elements.

At the same time, however, the number of people on sickness/disability benefits rose and the number of people involved in the early retirement scheme remained relatively high¹³⁰. Indeed almost 15 % of total social benefits paid out in 2006 (or 4.2% GDP) covered a disability in Denmark, compared to 7.5 % in the EU (1.9 % GDP)¹³¹.

Finally, what must also be mentioned is the fact that Danish statistics quite often work with the terms **full-time worker or full-time recipient**. Part-time employment, defined as employment for less than 27 hours a week, is relatively widespread in Denmark and figures are transformed into full-time employment for statistical purposes. In 2008, for example, part-time employment accounted for 20% of total employment. This we should bear in mind when using the data. For example, there were around 1.58 million full-time recipients of transfer payments in Denmark¹³² in 2007. As illustrated in Figure 4, the total number of transfer payment recipients was 2.31 million in the same year, which is a significant difference.

Figure 4: Number of transfer payment recipients, 2007

total, 18 years and over	
All Denmark	
Total	2 138 897
Unemployment benefits	204 179
Sick day benefits	346 486
Maternity day benefits	134 516
Social assistance	101 830
Rehabilitation	21 568
Old age pension	859 080
Early retirement pension	245 431
Civil servants earned pension	0
Early retirement pay	165 036
Local government activation	20 439
State activation	14 366
Leave benefits	8 157
Unemployment allowance	17 809

Source: Statistics Denmark, website database, [10.4.2010],
<http://www.statbank.dk/statbank5a/default.asp?w=1280>

To summarize, then, the number of people receiving sickness benefit in 2007 was higher than for unemployment benefits and there were more sickness day benefit recipients than unemployment benefit recipients. The sickness benefit group was the second biggest group in

¹²⁹ Bredgaard, T., Larsen, F., *The transitional labour markets*, p. 11

¹³⁰ Ibid. p. 12

¹³¹ European Commission, *The social situation in the EU*, p. 118

¹³² Statistics Denmark, statistical website database, [12.4.2010], available at: <http://www.statbank.dk/statbank5a/default.asp?w=1280>

2007 after old-age pensioners. This confirms what has been said about different exclusion from the labour market.

Around 1.2 million recipients we can consider permanent (old age /early retirement pensions), the remaining 0.9 million being recipients of temporary benefits. As we can see, the figure remained unchanged since 1993 despite flexicurity elements having been implemented on the labour market. Alongside the recipients of unemployment, sickness day and rehabilitation benefits, there are also people in activation schemes, such as those run by local government or the state, aimed at returning people to the labour market. The number of this type of transfer is, however, relative small compared to other groups.

Almost 25 % of total social expenditure in 2008 was aimed at sickness, with another 15 % covering disability¹³³. As demonstrated above, the reduction of the unemployment rate and the number of long-term unemployed does not necessarily only mean that the state reduces the cost of its social policy. In this case we can see that part of the cost is covered by other chapters, meaning that sickness/disability benefits are paid instead of unemployment benefits. This means that even though flexicurity without doubt has positive effects on reducing unemployment and boosting employment rates, **groups which are not directly covered by this concept, those that are only economically active thanks to subsidies or the economically inactive, could expand as a result of several factors.**

Firstly we have a group of people who are sent back to the education system (group guidance and upgrading), but who are not employable at the moment. It is disputable whether it is right to evidence them as economically inactive. Furthermore, some workers are only employed thanks to state-subsidized flex-jobs (this mainly concerns older workers (the 50+ group). The number of people in flex-jobs, especially in the 50+ age group, rose during the years in which the number of early retirement scheme recipients declined. This gives the impression that the same target group receives only different transfers.

Sickness and disability benefits are quite high in Denmark due to the rising demands placed on the labour force, work-related stress etc. In 2006, for example, disability accounted for 15 % of total social benefits (or about 4 % of the Danish GDP), compared with 7.5 % in the EU¹³⁴. This is another group of economically-inactive people with few prospects of returning to the labour market.

CONCLUSION

The Danish concept of flexicurity is generally considered to be very successfully thanks to its balance between low employment protection and generous welfare system, stimulating worker mobility among jobs. This system is especially beneficial in the case of frictional unemployment, when people are actively seeking the same type of job. Workers that are unemployed for a longer period of time are requalified according to this concept to facilitate their return to the labour market.

If we speak of the Danish economic and employment miracle, we should of course realize that the model only functions as a result of the general economic framework. The best description of the situation we have found is “the combination of well-managed macroeconomic steering, labour market reforms, high flexibility, a well-educated workforce and well-functioning tripartite cooperation based on social and political consensus¹³⁵”.

Firstly, there are tiny differences in protection or in various employment groups that prevent the creation of a dual labour market. Historically speaking, there is public consensus over low employment protection. Trade unions were and remain to this day partly responsible

¹³³ Statistics Denmark, statistical website database, [12.4.2010], available at: <http://www.statbank.dk/statbank5a/default.asp?w=1280>

¹³⁴ European Commission, *The social situation in the EU 2008*, p. 119

¹³⁵ Bredgaard, T., Larsen, F., *The transitional labour markets*, p. 8

for the payment of unemployment benefit from the insurance funds which they govern. The union's interest was traditionally to create such conditions on the labour market to minimize the number of unemployed people requiring benefits from their funds.

Furthermore, Denmark's investment in education and research is well above the EU average; the country is one of the most attractive places for running a business worldwide and has a very liberal business environment.

Most beneficiaries of the flexicurity concept are younger or well-educated / highly productive workers. The system enables them to change job quite easily due to low employment protection. If they do end up looking for a new job for some time, they can rely on a generous welfare system. There is also a generously-financed active labour market policy which helps return those who are not properly qualified at the moment to the labour market. The result of the flexicurity policy is the lowest long-term unemployment rate in the EU. State subsidies allow another group, those involved in so-called flex jobs, to remain economically active and boost the employment rate. Whilst it is a good idea to support people as workers rather than as recipients of unemployment benefit, such an idea is also financially demanding.

The other side of the coin is that around 25 % of the adult workforce (or 0.9 million people) receives some kind of the social security benefit on a temporary or permanent basis, the number of the recipients having remained unchanged since 1993. Together with the 1.2 million people involved in old-age or early retirement pension schemes it means that almost 50 % of the population receives some type of transfer payment.

High productivity demands and work-related stress mean that the cost of sickness and disability is twice as high in Denmark as is usual in the EU. The final effect **is that the structure of social costs is partly changed**: sickness and disability benefits are paid instead of the unemployment benefit that has been reduced. Not even the labour market is now divided between outsiders and insiders as a result of high employment protection. Another division has appeared, a division between highly productive people able to keep the pace and those that are less productive. To sum up, then, an analysis must be carried out of how much will be saved thanks to lower unemployment and how much will be additionally required to cover sickness/disability costs before applying flexicurity elements to national labour markets.

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