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WORKING PAPER SERIES

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Paper No. 09-04

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# The Danish flexicurity labour market policy concept



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### **Abstract**

Objective of this paper is to analyse the most recent changes of the interplay between the flexibility of the employment relationship on the one hand, and labour market and social policy, on the other. This article examines the new policy concept of "flexicurity" in view of the emerging flexibility-security approach that the European Union, national governments, sector of industry, individual companies and workers are currently facing. The flexicurity approach provides important answers to the question of how to meet modern labour market challenges and at the same time improve security. The special interest is concentrated on the so-called "*golden triangle*" of the Danish labour market successful flexicurity model.<sup>1</sup>

### **Keywords**

labour market, flexibility, security, flexicurity, "Danish" model

### **JEL classification**

J0, J8

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<sup>1</sup> Note: This article draws on European Commission (2007) report Towards Common Principles of Flexicurity: More and better jobs through flexibility and security, p. 7-37, and Per Kongshøj Madsen (2003) article "Flexicurity" through labour market policies and institutions in Denmark.

## 1. Introduction

A labour market radically changed by the twin forces of globalization and technological advances. Technology progresses, new products and services are being developed at an ever faster pace. This creates huge challenges for European companies and workers. Mastering new skills becomes ever more important.

The employment and social securities of the past have to be changed and new securities need to be developed for the future. Active and passive labour market policies are an important element of employment and social protection, and their adaptation to the new, more flexible environment is crucial for the development of new employment-related securities. On the other side of the debate, the many authors opposing stronger deregulation and "flexibilization" of the labour market see a real danger for working and living standards in the rise of "non-standard work arrangements".

Mass dismissals, high unemployment and the rise of part-time and temporary jobs have augmented the feeling that the new jobs are very different from the old and that longer-term-full-time employment relationships belong to the past. The popular view of the (future) labour market is that of one without much employment security.

But it is important to stress that employment has not yet become a commodity, especially in Europe. There are still trade unions, there is still bargaining, there is still employment protection legislation: in fact, the institutions underpinning more stable employment relationships. In order to achieve the Lisbon objectives<sup>2</sup> of more and better jobs, new forms of flexibility and security are needed, for individuals and companies as well as for Member States and the Union.

Does all this mean that European workers have to live with less security or that generous social models are in danger? Not, at all. The European Council and Commission, together with the Member States and the social partners develop a new approach – flexicurity approach, which will be examined in this paper. The flexicurity approach provides important answers to the question of how to meet modern labour market challenges and at the same time improve security. For the development of the EU, the Lisbon process and the European Social Model, flexicurity has become a keyword<sup>3</sup>. How does synergy emerge from a flexible labour market that also provides security for the employees? While economic and social progress is often taken as opposites, flexicurity aims at showing ways of overcoming this impasse. The nature of flexicurity and its future are discussed in this comprehensive approach.

## 2. The labour market flexicurity model

The best way to explain theoretical concept of flexicurity on labour market is to describe it through alive country case approach. The most successful country which has succeeded in introducing "flexicurity" is Denmark<sup>4</sup>. Its labour market system combines a numerically flexible labour market with a high degree of social, income and employment security. Macroeconomic results could be seen through rapid reduction of unemployment and the economy has been enjoying an inflation-free upswing since 1994. Since the mid-1990s, Denmark has shown an impressive macroeconomic performance. Unemployment has declined from 12 to 6% and total employment has increased by almost 6% (Madsen, 2003, 100)<sup>5</sup>.

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<sup>2</sup> The Lisbon objectives are goals that EU governments have set themselves to achieve by 2010 through national reform programmes. The idea is to promote job creation and economic growth. Two key goals are to achieve on overall 70% employment rate and a 60% employment rate for women by 2010. See more detailed at: [http://europa.eu/scadplus/glossary/lisbon\\_strategy\\_en.htm](http://europa.eu/scadplus/glossary/lisbon_strategy_en.htm).

<sup>3</sup> Recently, the European Commission has embraced the concept of flexicurity, most evidently in the Presidency Conclusions of the European Council stating that the member states should pursue reforms in labour market and social policies under an integrated flexicurity-approach, while the Commission will explore the development of a common set of principles on flexicurity (Council of the European Union, 2006).

<sup>4</sup> It was first implemented in Denmark by the social democratic Prime Minister Poul Nyrup Rasmussen in the 1990s. The idea of the Dutch flexicurity legislation, which took effect in 1999, was to correct this imbalance between an inflexible labour market for core workers and an insecure labour market situation for the contingency workforce. Another important aim was to encourage a development from job security towards employment security, in particular through a more active labour market policy (Bredgaard, Larsen, 2007, 4).

<sup>5</sup> Denmark's current low unemployment figures (4,8% in 2005) and its low social exclusion rates, coupled to output growth over 3% have led the European Union to adopt flexicurity as its leitmotiv in its European Employment Strategy (European, Commission, 2006a).

These developments can be explained by a number of background factors. Denmark's industrial structure is dominated by small and medium enterprises, weak employment protection, and generous unemployment benefits, the relationship between which results in a high level of job mobility. But the main question is – how the Danish successful model of unique combination of flexibility in the employment relationship and the economic and social security of employees really works? This relative success of the Danish labour market model is elaborated here, but firstly it is important to define the concept of the flexicurity labour market.

### ***2.1. The concept of flexicurity***

The concept of flexicurity rests on the assumption that flexibility and security are not contradictory, but complementary and even mutually supportive. Critics have said that flexicurity is really nothing more than a paraphrase of the traditional antagonism between capital and workers – employers demanding more flexibility and employees demanding more security as compensation. However, the idea behind the flexicurity approach is that flexibility is not the monopoly of the employers, just as security is not the monopoly of the employees. In modern labour markets, employers are realising that they have an interest in stable employment relations and in retaining employees who are loyal and well-qualified. Many employees are realising that to be able to adjust their work life to more individual preferences they too have an interest in more flexible ways of organising work, e.g. to balance work and family life. So, the foundation is there for a new interaction between flexibility and security (Bredgaard, Larsen, 2007, 4).

As specified in the European Commission's report, the flexicurity concept is a response to the needs European labour markets are facing. Technological developments are becoming ever more rapid. Products and services are developed at an ever quicker pace. If Europe wants to strengthen its economy and create jobs, it has to be in the forefront of these developments. Enterprises have to move towards innovative product and service development. They have to master new skills and production techniques. This is a continuous process, affecting employers and workers alike. Jobs change more quickly than before.

On the other hand, the EU needs to reinforce the European social models, which are committed to social protection, social cohesion and solidarity. Workers need sufficient security to plan their lives and careers with support to make it through all these changes and stay in employment. They need opportunities to master new skills and help to move from one job to another. They need protection against bad working conditions. Flexicurity is an attempt to unite these two fundamental needs. It promotes a combination of flexible labour markets and adequate security. Flexicurity can also help provide an answer to the EU's dilemma on how to maintain and improve competitiveness while reinforcing the European social model.

It brings together a low level of protection of workers against dismissals with high unemployment benefits and a labour market policy based on an obligation and a right of the unemployed to training. The concept of job security is replaced by employment security. Social dialogue between employers and employees is an important aspect of the flexicurity model<sup>6</sup>. It is a welfare state model with a pro-active labour market policy. The model is a combination of easy hiring and firing (flexibility for employers) and high benefits for the unemployed (security for the employees) (Wilthagen, Tros, 2004, 171).

The concept of flexicurity should not be misconceived as giving employers freedom to dissolve their responsibilities towards the employee and to give them little security, as emphasized in the European Commission's report. Flexicurity does not mean “hire and fire”; nor does it imply that open-ended work contracts are a thing of the past. Flexicurity is about bringing people into good jobs and developing their talents. Employers have to improve their work organisation to offer jobs with future. They need to invest in their workers' skills. This is part of “internal flexicurity”. However, keeping the same job is not always possible. Sometimes it is better to focus on finding a new job rather than preserving the job one has at the moment. “External flexicurity” attempts to offer safe moves for workers from one job into another and good benefits to cover the time span, if needed.

Rather than job security, flexicurity focuses on “employment security”. Employment security means staying in employment, within the same enterprise or into a new enterprise. The philosophy behind flexicurity is that workers are more prepared to make such moves if there is a good safety net. Individuals increasingly need employment security rather than job security, as fewer have the same job for life.

<sup>6</sup> See more detailed at: <http://www.euractiv.com/en/socialeurope/>

Companies, especially SMEs, need to be able to adapt their workforce to changes in economic conditions. They should be able to recruit staff with a better skills match, who will be more productive and adaptable leading to greater innovation and competitiveness.

The Commission and the Member States together with the social partners have achieved a consensus that flexicurity policies can be designed and implemented across four policy components (see table 1).

**Table 1.** The components of flexicurity policies

Policy components			
Flexible and reliable contractual arrangements	Comprehensive lifelong learning (LLL)	Effective active labour market policies (ALMP)	Modern social security systems
<ul style="list-style-type: none"> <li>○ The idea is to help "outsiders", who are employed on short-term or irregular contracts or are unemployed to find work and to move into stable contractual arrangements.</li> <li>○ On the other side, flexicurity is also to help "insiders" who are permanent employees with open-ended contracts, prepare themselves for job changes ahead of time in the case of redundancy due to economic change.</li> </ul>	<ul style="list-style-type: none"> <li>○ Strategies to ensure the continual adaptability and employability of workers, particularly the most vulnerable.</li> <li>○ It is about ensuring that EU citizens have complete at least their secondary education.</li> <li>○ It is also about ensuring that enterprises invest more in human capital and allow employees to develop their skills.</li> </ul>	<ul style="list-style-type: none"> <li>○ Supporting transitions between jobs, as well as from unemployment and inactivity to jobs.</li> <li>○ Help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs.</li> <li>○ By implementing ALMPs such as an efficient job search support and good work incentives, jobseekers can be encouraged to find new employment.</li> </ul>	<ul style="list-style-type: none"> <li>○ That provide adequate income support, encourage employment and facilitate labour market mobility.               <ul style="list-style-type: none"> <li>- Include: broad coverage of social protection provisions (unemployment benefits, pensions and healthcare) that help people combine work with private and family responsibilities such as childcare.</li> </ul> </li> </ul>

Compiled using: OECD (2006), European Commission (2006a), European Commission (2007).

Economic analysis confirms that these four components can be mutually supportive, and improve employment (total as well as for women, youth and older workers), at-risk-of-poverty rates, and human capital<sup>7</sup>. Empirical evidence suggests that workers feel better protected by adequate unemployment benefits than by strict protection against dismissal. ALMPs, too, have a positive effect on the feeling of security among workers.

Flexicurity is very attractive term and therefore in need of further definition in order to apply it in policy-making and the study thereof. It is relatively new term and for this reason, the relevant literature is still developing and there is no single definition of the concept that is currently universally accepted. In the literature, at least three different, but overlapping understandings of flexicurity can be identified:

- 1) Flexicurity as a policy strategy;
- 2) As a state of affairs on the labour market and
- 3) As an analytical concept.

One possibility is to define flexicurity as "social protection for flexible work forces" or as the "normalization of atypical work" (Bredgaard, Larsen, 2007, 5). The most precise and probably the most widely used definition of flexicurity come from Ton Wilthagen and his colleagues. Wilthagen defines flexicurity as a policy strategy that can be defined as follows (Wilthagen, Rogowski, 2002, 241):

*"...a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organization and labour relations on the one hand, and to enhance security –*

<sup>7</sup> European Commission (2006a), *Employment in Europe 2006*, Chapter 2 – "Flexibility and security in the EU labour markets". Also work done in the OECD, ILO and the European Commission indicates that flexicurity policies have contributed to those favourable outcomes.

*employment security and social security – notably for weaker groups in and outside the labour market, on the other hand"* (cf. Wilthagen 1998; Wilthagen, Tros, 2004, 170).

In order to obtain the label "flexicurity", the strategy, policy or program must be synchronous (contain elements of both flexibility and security at the same time), planned (the actors must be conscious about this mutuality) and aimed at vulnerable groups (people on the margins of or outside the labour market).

A second definition of flexicurity has subsequently been developed to include a certain state of affairs or condition on the labour market, more precisely<sup>9</sup> (Wilthagen, Tros, 2004, 171):

*(1) a degree of job, employment, income and combination security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows for enduring and high quality labour market participation and social inclusion, while at the same time providing*

*(2) a degree of numerical (both external and internal), functional and wage flexibility that allows for labour markets' (and individual companies') timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity.*

The third understanding of flexicurity is as an analytical framework that can be used to analyse developments in flexibility and security and compare national labour market systems. One important insight from Wilthagen and his colleagues is that both flexibility and security are multidimensional concepts. The distinction can be made between four forms of flexibility: (1) Numerical flexibility (adaptation of the number of employees), (2) Functional flexibility (between different work tasks), (3) Working time flexibility and (4) Wage flexibility. The innovative aspect of the flexicurity concept is to link this with different forms of security: (1) Job security: security enabling the worker to remain in the same job, (2) Employment security: security to remain in employment, but not necessarily in the same job or with the same employer, (3) Income/social security: security which maintains one's income under conditions of unemployment, illness and accident, and (4) Combination security: the possibility to combine working life with private life (e.g. child-care leave) (Bredgaard, Larsen, 2007, 6). The possibilities of combining flexibility and security are often presented in a matrix showing several possible combinations.

**Figure 1.** The flexicurity matrix

	Job security	Employment security	Income security	Combination security
Numerical flexibility	✓	✓	✓	✓
Working time flexibility	✓	✓	✓	✓
Functional flexibility	✓	✓	✓	✓
Wage flexibility	✓	✓	✓	✓

Source: Wilthagen, Tros (2004, 172), Bredgaard, Larsen (2007, 6).

Wilthagen's matrix offers a heuristic tool which can be used to identify different flexicurity policies or combinations of flexibility and security for certain arrangements. It can also be used to identify relationships between flexibility and security in different national labour market regimes. The main thrust of the EU recommendation on flexicurity is to encourage a shift from job security towards employment security (European Commission, 2006a, 78).

Finally, flexicurity arrangements can be established through different forms of regulation: law, collective agreements or individual work contracts. Interpreted this way, flexicurity is a complex and multi-dimensional concept that implies integration of different policy fields. Flexicurity arrangements are inserted in broader national contexts (welfare state models, collective bargaining systems, national traditions), just as there are many different forms of flexicurity both in Europe and within individual countries (Bredgaard, Larsen, 2007, 7).

<sup>9</sup> This definition is among other things inspired by the Danish case, where it is difficult to speak of any planned policy strategy (Bredgaard, Larsen, 2007, 6).

## 2.2. Common principles and implementation of flexicurity

While flexicurity policies and measures must reflect the very different national situations, all EU Member States face the same challenge of modernisation and adjustment to globalisation and change. As a result, to facilitate national debates within the common objectives of the European Union's *Growth and Jobs Strategy*, it seems appropriate to reach an agreement at EU level on a series of “common principles of flexicurity”. These principles should help EU Member States in the organization and implementation of flexicurity strategies (European Commission, 2007, 20).

The common principles could be:

1. Flexicurity implies a balance between rights and responsibilities for employers, workers, jobseekers and public authorities;
2. Flexicurity should be adapted to the specific circumstances, labour markets and industrial relations of the Member States. Flexicurity is not about one single labour market model or a single policy strategy;
3. Flexicurity should divide between insiders and outsiders on the labour market;
4. Internal (within the enterprise) as well as external (from one enterprise to another) flexicurity should be promoted. Sufficient flexibility in recruitment and dismissal must be accompanied by secure transition from job-to-job;
5. Flexicurity should support gender equality by promoting equal access to quality employment for women and men, and by offering possibilities to reconcile work and family life as well as providing equal opportunities to migrants, young, disabled and older workers;
6. Flexicurity requires a climate trust and dialogue between public authorities and social partners, where all are prepared to take responsibility for change, and produce balanced policy packages;
7. Flexicurity policies have budgetary costs and should be followed also with a view to contribute to sound and financially sustainable budgetary policies.

All previous common principles could be a useful reference in achieving more open and responsive labour markets and more productive workplace.

The implementation of the common principles of flexicurity in the Member states requires the establishment of carefully planned and negotiated combinations and sequences of policies and measures. Since Member States vary considerably in their socio-economic, cultural and institutional background, the specific combinations and sequences will also vary. The four typical pathways<sup>10</sup> reflect the concrete situation of any specific country. However, each pathway (described in Table 2) – or even a combination of them – addresses specific challenges that are significant to several Member States.

**Table 2.** Flexicurity pathways

Pathways	Objectives/activities
Pathway 1: Tackling contractual segmentation	○ Is of interest to countries where the key challenge is segmented labour markets, with insiders and outsiders. This pathway would aim to distribute flexibility and security more evenly over the workforce. It would provide entry ports into employment for newcomers and it would promote their progress into better contractual arrangements.
Pathway 2: Developing flexicurity within the enterprise and offering transition security	○ Is of interest to countries with relatively low job-flows. It would increase investments in employability to allow workers within enterprise to continuously update their capabilities and thus be better prepared for future changes in production methods, organisation of work.
Pathway 3: Tackling skills and opportunity gaps among the workforce	○ Is of interest to countries where the key challenge is large skills and opportunity gaps among the population. It would promote opportunities of low-skilled people to enter into employment and develop their skills in order to obtain a sustainable position at the labour market.
Pathway 4: Improving opportunities for benefit recipients and informally employed workers	○ Is of interest to countries which have experienced substantive economic restructuring in the recent past, resulting in high numbers of people of long-term benefits with difficult perspectives of returning to the labour market.

Compiled using: European Commission (2007, 28-35).

<sup>10</sup> The *Flexicurity Expert Group* has put together different pathways to flexicurity based on specific problems. The EU recognises that one single flexicurity policy might not fit every country and is therefore promoting that each Member State find its own way. The different pathways aim to help governments in implementing flexicurity measures (European Commission, 2007).



Member States, taking account of their own particular situation and institutional background, should study their specific challenges and the typical pathways that can help to address them, in order to design their own comprehensive pathway towards better combination of flexibility and security.

The Danish system illustrates how a numerically flexible labour market can exist without necessarily creating more insecurity and more (wage) inequality. However, such a system does not come without cost and this is also one of the reasons why Danish taxes are among the highest in the world. But as the system is inclusive, collectively bargained, and its returns in terms of jobs and services rather good, Danes do not – at least, not en masse – oppose high taxes (Auer, Cazes, 2003, 13). In the most recent European survey, the employment rate in Denmark ranks as the highest in the European Union: in 2007, 77,4% of persons aged 15-64 years were in employment in Denmark (compare to 65,7% in EU27 and just 55,6% in Croatia). Considering previously considered high and persistent unemployment, Denmark is now close to full employment, with unemployment rate around 3,1% (European Communities, 2008).

### 3. The “Danish” model

Recently, these favourable labour market outcomes have been ascribed to the unique Danish combination of flexibility and security. The combination of well-managed macroeconomic policies, labour market reforms, high flexibility, a well-educated workforce and well-functioning tripartite cooperation based on social and political consensus has won the "Danish labour market model" renown.

In connection with the EU employment strategy, and in individual EU members such as Germany and France, Denmark has been used as a textbook example of how a member state has proved able to combine a dynamic economy, high employment and social security. In the international debate on "flexicurity", the Danish case is quoted frequently (Wilthagen, 1998; Wilthagen, Tros, 2004; Madsen, 2003).

#### 3.1. The "Golden triangle" of flexicurity

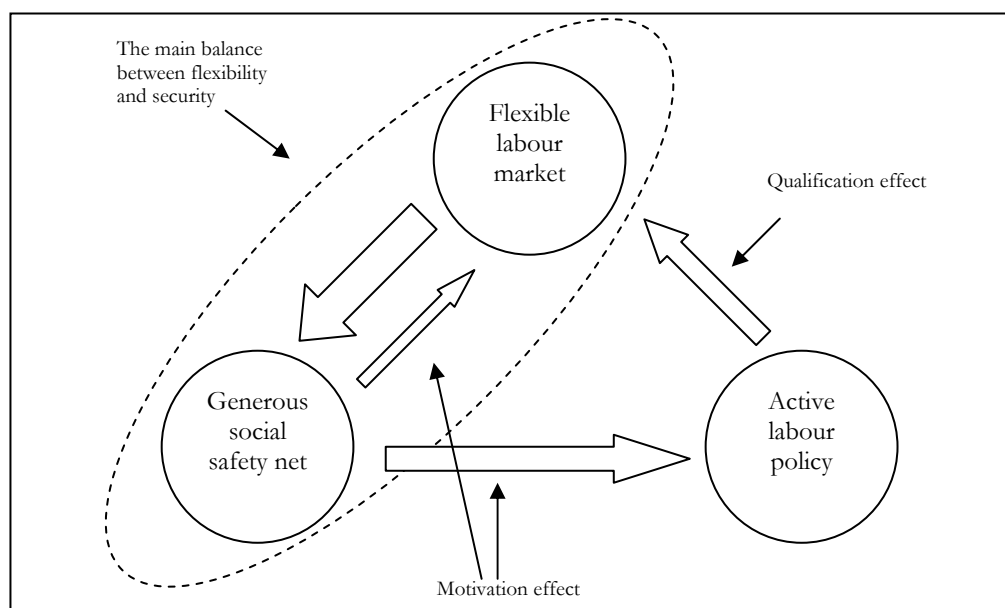
Thus, the Danish model is in contrast to other national institutional frameworks, where legislation or collective agreements provide the employee with a high level of protection from dismissal. In Denmark, the direct costs of protecting the employee are borne to a large extent by State – and therefore by the country's taxpayers and not by individual firms (Madsen, 2003, 60).

Another important feature of the Danish model is the new design of labour market policy mentioned above, known as "activation". "Activation" is the result of a shift away from passive benefits towards active labour market programmes, and it implies a much more active role of the unemployed in seeking a job. From 1994 onwards, the individual's right to economic support during periods of unemployment has been increasingly affected by requirements to participate in job training, educational programmes and other active labour market measures.

Altogether, these elements – flexibility in the employment relationship and in the same way high level of mobility<sup>11</sup>, a generous system of unemployment benefits, and the new labour market policy of "activation" – make up the three corners of the Danish "golden triangle", the popular model often used to describe the country's success (Madsen, 2003, 60).

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<sup>11</sup> In fact mobility (measured by job mobility, job creation, job destruction and average tenure) is remarkable high by international comparisons (Auer, Cazes, 2003).

**Figure 2.** The "golden triangle" of flexicurity

Compiled using: Madsen (2003, 101), Bredgaard, Larsen (2007, 12), Andersen, Svarer (2007, 392).

The model combines high mobility between jobs with a comprehensive social safety net for the unemployed and an active labour market policy. The arrows between the angles of the triangle illustrate flows of people. As many as close to a quarter of employees are each year affected by unemployment and receive unemployment or cash benefits. The social security system in the form of unemployment benefits and social assistance for the unemployed together with the highly flexible labour market form the main axis of the model. But majority of these unemployed persons manage to find their own way back into a new job. The rest end up in the target group for the active labour market policy<sup>12</sup>, which help them find employment again (Bredgaard, Larsen, Madsen, 2005, 7). The figure also illustrates two of the most important effects in this connection. On the one hand, as a result of the active labour market measures, the skills of participants in various programs (e.g. job training and education) are upgraded and this improves their chances of getting a job. On the other hand, the measures can have a motivational effect in that unemployed persons who are approaching the time when they are due for activation may intensify their search for ordinary jobs, in the event that they consider activation a negative prospect (Bredgaard, Larsen, 2007, 12).

Employers can hire and fire employees easily because of relatively low levels of employment protection regulation<sup>13</sup>, but where people lose their jobs relatively high benefit replacement levels (and unemployment benefit lasting for up to four years), together with active labour market policy (especially re-training), allows structural adjustment to take place without high levels of unemployment arising. There is a high degree of consensus from the social partners that the system works; it has become part of the Danish social contract (Madsen, 2007, 14).

The triangle image represents the success of the Danish employment system as due to its unique tri-combination of flexibility (indicated by a high level of labour and job turnover), social security (a generous unemployment benefit system) and active labour market programmes, which upgrade the skills of the unemployed and thus support the ongoing transformation of the economy. Thus, the "golden triangle" depicts Denmark as a kind of "hybrid" employment system combining the flexibility of a liberal labour market with the social protection and active labour market policy of a Nordic welfare state (Madsen, 2003, 101).

Another consideration related to the "golden triangle" is the risk that social protection may create a poverty trap. The high replacement rates in the Danish unemployment benefit system increase the risk of

<sup>12</sup> For instance job training and education.

<sup>13</sup> Denmark is among a group of countries with a rather low tenure (around 8,5 years in 2005), comparable to the United Kingdom. More than 70% of people in Denmark think that changing jobs every few years is good; compared to 40% in EU-25 (European Foundation, 2006).

economic discouragement, especially for low-income groups. While such effects are theoretically reasonable, there have been hard to verify empirically (Madsen, 2003, 103).

### 3.2. Danish flexicurity – a model or an outlier?

Various trade-off and complementarities<sup>14</sup> influenced the labour market behaviour of individuals and firms. A trade-off exists when one item is "traded" against another. In our example, employment protection stringency is "traded" against access and coverage of social protection<sup>15</sup>. So overall protection could be the same if you have strong employment protection, which diminishes dismissals and the need for social protection, or if you have weak employment protection and more dismissals, but an extensive system of social protection, with high coverage and high replacement rates, such as generous unemployment benefits. Complementarities exist if you have protection on both counts: high employment protection legislation (EPL)<sup>16</sup> and high social protection (as is very often the case in continental European welfare states). There can also be low values on both counts: no or low EPL, plus no or low social protection. In the case of low values we cannot speak of complementarity, only of a negative complementarity that could, nonetheless, have an impact on supply behaviour – because there is no protection, the only security is to have a job (Auer, Cazes, 2003, 5).

A number of authors (Boeri et al., 2003 and 2004) have drawn attention to a negative correlation between the size/coverage of the UB system and the relative strictness of EPL. Figure 3 suggests that this trade-off does not hold when plotting the most recent figures on EPL and gross replacement rate (2003) of UB, calculated by the OECD for a number of OECD countries. The UB system and EPL are two (to some extent) alternative ways of protecting individuals against labour market risk. A flexicurity approach is consistent with moving along this trade-off by loosening EPL to some extent in exchange for more generous UB and higher spending on ALMP (European Commission, 2006a, 94). Such approach is clearly evident in Denmark.

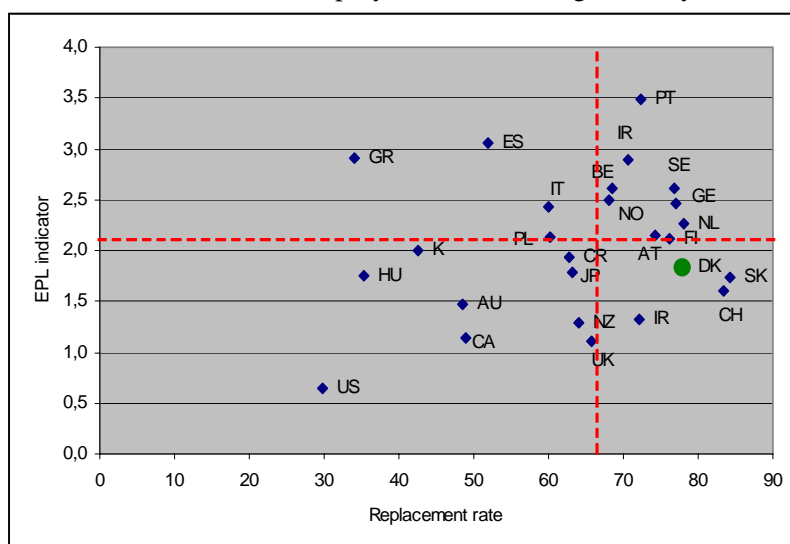
In cross-country comparisons, Denmark stands out as having rather liberal employment protection legislation (EPL) and a relatively generous unemployment insurance scheme. As a consequence it is often seen as a "flexicurity" country. The cross-country evidence presented in Figure 3 does not support the usual perception that lax EPL and a generous UI-system are alternatives in policy packages.

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<sup>14</sup> A "weak" definition of complementarity just denotes a positive correlation between EPL and social protection. A "strong" definition would assume that one cannot exist without other.

<sup>15</sup> In its simplest form, this means that the more you have of one, the less you have of the other.

<sup>16</sup> EPL refers to various regulations determining if and how a job contract ends. It can for instance be when employers need approval from a judge or from the public authorities before they can end a contract. It can also be when companies have to pay an employee several months of wages if they give an employee their notice. Overly strict employment legislation can encourage companies to use different types of temporary contracts instead of taking on new employees on a permanent contract. In reality this means that employees will then have a much lower level of protection. It is sometimes claimed that flexicurity seeks to abolish employment protection legislation. This is not the case. Flexicurity promotes an appropriate design of EPL to ensure that finding new employment is facilitated, especially when one cannot keep one's job (European Commission, 2007, 15).

**Figure 3.** Indicators of EPL and unemployment insurance generosity, OECD countries

Note: Indicator for EPL is measured on a scale from 0 to 4 in 2003, and the replacement rate measures the average ratio of benefits to wages calculated as an average over 5 years. The dashed lines indicate the median values of the two indicators.

Compiled using: OECD Database. For EPL - <http://www.oecd.org/dataoecd/2/54/40818496.xls> and for replacement rate - <http://www.oecd.org/dataoecd/25/30/34008574.xls>.

It is more appropriate to distinguish between "low" security countries with lax EPL and non-generous UI (for example, US), and "high" security countries with strict EPL and generous UI (for example, Portugal). In the latter group, Denmark stands out, being a country with one of the most generous UI-systems, but relatively lax EPL (Andersen, Svarer, 2007, 394).

In a number of respects, standard perceptions on flexicurity do not match experience from Denmark. It is often hypothesized that a flexicurity system like the Danish is bound to lead to large employment variability, leaving it to the UI-system to reduce the consequences of these fluctuations. Judging job security by lengths of job tenure, one finds it to be relatively low in Denmark, but this can partly be explained by an industry structure with relatively many small firms and a relatively low average retirement age.

In terms of policy advice this system is important, because it shows that our acknowledged "trade-off" between employment and social protection can exist. For the social partners this means an enlarged bargaining area, as one cannot cut back employment protection without adding to social protection, or vice versa, if one is to maintain the "flexicurity" system. It demonstrates a working model of positive interaction between employment in companies and in the public sector and labour market institutions. Employees not covered by the unemployment benefit system are covered by a mainly state-financed system of unemployment and social security benefits (Madsen, 2003, 60). So, the uncertainty caused by flexibility in the individual employment relationship is counterbalanced by a safety net provided by the unemployment (and social security) benefits and financed mainly by the public budget – and thus by general taxation (Madsen, 2003, 102).

Flexicurity policies can also be observed in other national and international governance systems what is further analysed.

#### 4. Experiences with flexicurity

The concept of flexicurity is increasingly being taking up in other countries, explicitly in the German debate on labour market flexibilisation and the regulation, in Scandinavian countries, Belgian labour market studies (Wilthagen, Tros, 2004, 178), in the eastern and central European countries (Cazes, S.,

Nesporova, A., 2003) and, at the EU level<sup>17</sup>. The *European Employment Strategy (EES)* calls for labour market institutions to adopt "flexicurity" principles (European Commission, 2005, 32)<sup>18</sup>. Country experiences show how flexicurity policies can work. They highlight the merits of an integrate approach across at least some of the four components of flexicurity, whereby flexibility and security are mutually reinforcing.

Austria combines rather high labour market flexibility with an average level of social benefits, accompanied by effective active labour market policies and strong dependence on social partnership. This system is also known as Austrian severance pay system. Austrian labour laws provide for a relatively low de facto level of employment protection, although statistics display an average index. This difference is linked to procedural aspects, which are supportive to relatively smooth dismissal procedures. A very important innovation took place in 2003, when the new system of severance pay came into force. In the old system, severance payment to redundant workers depended on the length of the employment relationship. This meant that workers, when moving from one employer to another, would lose their accumulated rights. The new system requires the employer to pay a fixed monthly sum into a personalised account held by the worker. Workers may draw from this account in the case of dismissal.

As already stressed the Danish labour market shows a successful combination of flexibility and security, offering flexible labour laws and relatively low job protection, extensive efforts on lifelong learning and active labour market policies, and generous social security system. Denmark is characterised by very high employment rates (77,4% in 2006), very low unemployment (3,9%), youth unemployment (7,7%) and long-term unemployment (0,8%), high job turnover (one fourth of employees having been with the same employer for less than one year), high participation in lifelong learning (27,4%), low-at-risk-of-poverty rate (12%) and high general feeling of security among the population.

Since the end of the 19<sup>th</sup> century, Dutch workers have had little protection from dismissal, but with income protection, they have the security of being able to find a new job quickly, thanks to training, mediation and reintegration (Wilthagen, Tros, 2004, 179). The Dutch "Wassenaar Agreement" (1982) traded wage moderation for employment, and paved the way for the development of part-time jobs in the context of collective agreements. Part-time jobs are mostly open-ended contracts and should not be confused with "precarious employment". The large majority of part-time workers, who are mostly women, do so voluntarily.

Spain experiences a persistently high share of fixed-term contracts, covering about 34% of total employment. A comprehensive agreement was signed in May 2006, running until end of 2007, between the social partners and supported by the Government, restraining the extreme use of fixed-term contracts and easing requirements on employers.

Ireland has been transformed from the low-income, slow-growth economy with high unemployment rates into a country with high growth, high income and low unemployment. Ireland has a flexible labour market and is strengthening its investment in active labour market policies (0,75% of GDP as compared with the EU average of 0,5%).

From this comparison, firstly it becomes clear that each country knows specific forms and mixes of security and flexibility. Secondly, the debate in each country on the issues of flexibility and security has intensified during the past two decades. And third conclusion is that different emphasis is put in the countries studied on types of flexibilisation and security and on the relationship between these two factors (Wilthagen, Tros, 2004, 179).

## 5. Conclusion

Our view of today's world of work is that it is indeed better to protect the workforce not only by employment protection legislation on firms, but by providing adequate labour market institutions which allow firms to adjust their labour force in socially responsible ways. The article delivers successful case of

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<sup>17</sup> EU Commission is preparing a green book on flexicurity to set out some common principles for the EU member countries. See more in *Outcome of the Public Consultation on the Commission's Green Paper "Modernising labour law to meet the challenges of the 21st century"*, Brussels 2007. - [http://ec.europa.eu/employment\\_social/labour\\_law/docs/2007/follow\\_up\\_com\\_627\\_en.pdf](http://ec.europa.eu/employment_social/labour_law/docs/2007/follow_up_com_627_en.pdf).

<sup>18</sup> Specifically, Guideline No. 21 of the Integrated Guidelines for Growth and Employment for the period 2005-2008 calls on Member States to "...promote flexibility combined with employment security and reduce labour market segmentation...".

Danish labour market model of "flexicurity" and explains its main characteristics and advantages. The special interest is concentrated on the so-called "golden triangle", which represents the success of the Danish employment system as due to its unique three corners combination model. Therefore, the study examines more deeply these three main features of the Danish labour market model – flexibility, social security and active labour market programmes.

The political recommendations arising from the above is that labour market policies need to apply "trade-off" between a very flexible employment relationship and a social protection system which protects individuals from the potential costs of low level of employment security. The analysis shows that low level of employment protection, but very active labour market policies continually enhance employability and avoid long-term exclusion from employment. At the same time, good unemployment benefits, effective active labour market policies and dynamic labour markets increase people's feeling of security.

As the study of flexicurity strategies is still a relatively new area of research, it is not yet possible to give well-founded statements on the conditions, effects and success of these strategies. From this research of the Danish case of flexicurity, we can learn one important lesson – it is evidently that a sizeable welfare state with high levels of both taxes and social benefits is not incompatible with a dynamic and well-functioning labour market.

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