

# **The flexible Danish labour market – a review**

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## **Preface**

The objective of this review is to present an easily accessible survey of the existing knowledge and research results on the societal value of the flexible Danish labour market.

Seen in an international perspective, Denmark is characterised by high employment and low marginalisation. It is widely assumed that the favourable results are due to the special Danish combination of flexible dismissal rules, an active labour market policy including rights and duties of education and placement, and relatively high unemployment benefits. In recent years the concept “flexicurity” has come to be used to describe the particular Danish mix of flexibility and social security.

There is widespread agreement that, in a time of increasing globalisation, maintaining high levels of employment will depend on a country’s readiness for change and ability to adapt its production; and in this context the flexibility of the labour market is a pivotal factor.

On this background – and by including international experiences – this review will give an overview of which areas are particularly relevant for the positive as well as negative effects of the flexible Danish labour market, and of the challenges that globalisation poses to the organisation of the Danish “flexicurity system”. The review will also point out the economic and political preconditions for the flexibility, and the challenges facing the Danish model in the next few years.

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Aalborg, April 2005

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## 1. Introduction

The period since 1993 has been a golden age for the Danish labour market. In 2002, recorded unemployment fell to its lowest level since 1974, and in 2001 employment was at an all-time high. The only drawback has been the slight downturn of the last few years; however, in 2004 the business cycle seems to be heading for an upturn again.

The development on the Danish labour market has attracted international attention as well. In several reports, the UN's international labour organisation, the ILO, has pointed out Denmark as a good example (Auer, 2000; Auer & Casez, 2003; Egger & Sengenberger, 2003). In connection with the EU's employment strategy, and in individual EU countries such as Germany and France, Denmark has been used as a textbook example of how a member country can combine a dynamic economy, high employment and social security. In the international debate on "flexicurity" – or ways of combining labour market flexibility and social security for employees – references to Denmark are plenty (Wilthagen 1998; Wilthagen & Tros 2004; Madsen, 2003, 2004; OECD, 2004, chapter 2).

The combination of well-organised macroeconomic management, reforms of the labour market policy, a high degree of flexibility, a well-educated labour force and well-functioning tripartite cooperation based on social and political consensus has won the "Danish labour market model" fame – national as well as international.<sup>1</sup>

Inspired by the then Ministry of Labour (1999), the Danish labour market model is often described as a "golden triangle", cf. figure 1.1. The model combines high mobility between jobs with a comprehensive social safety net for the unemployed and an active labour market policy. The high degree of mobility from employer to employer is linked to the relatively modest level of employment protection in the Danish labour market. 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. But the 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, which – ideally – helps them find employment again. The model illustrates two of the most important effects in this connection. On the one hand, as a result of the active measures, the participants in various programmes (e.g. job training and education) are upgraded and therefore improve 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 case they consider activation a negative prospect.

Historically, the social safety net in the shape of the unemployment benefit system and cash benefits for the unemployed together with the high flexibility form the main axis of the model, in the sense that both elements have been characteristic of the Danish labour market for many years. Recognition of the employers' right to hire and fire at will dates back to the September Compromise of 1899. The unemployment benefit system has its roots in the early 1900s, and in its present form dates back to the late 1960s. The active labour market policy stressing upgrading of skills and job

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<sup>1</sup> Although the term "employment policy" has gained some popularity in recent years, this review uses the term "labour market policy" to refer to the direct political and administrative regulation of the labour market within the area of responsibility of the Ministry of Employment. The terminology of the report is here in line with the most recent presentations in the field (cf. Mølsted Jørgensen & Damtoft Pedersen, 2004).

training, on the other hand, is relatively new. In its present form, it originates from the labour market reform of 1993-94 and subsequent initiatives.

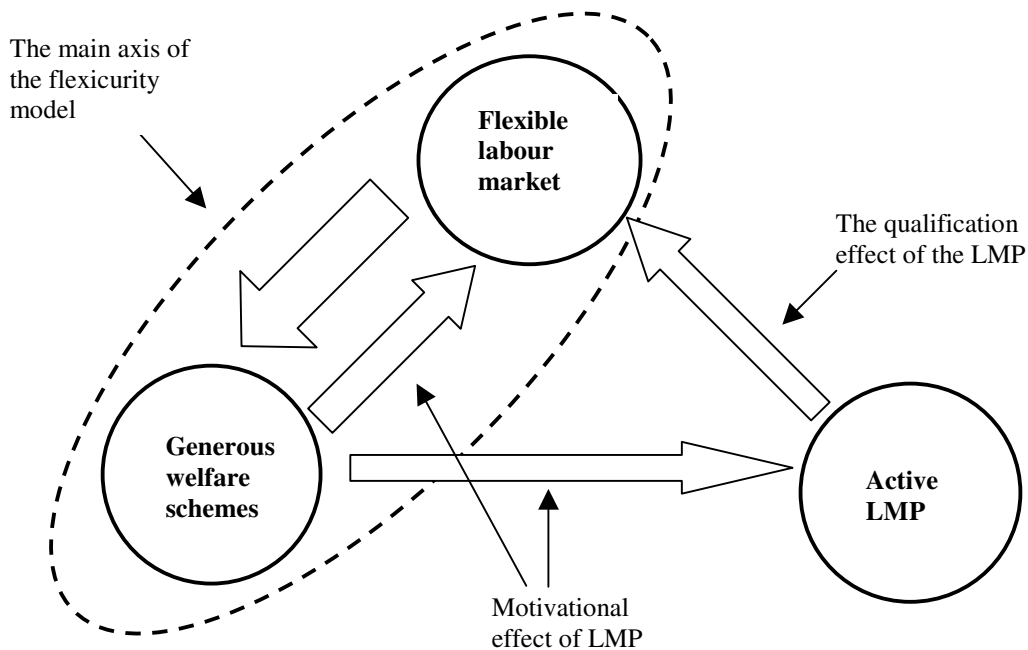


Figure 1.1: The Danish "flexicurity model"

In international comparisons, the Danish model is thus a hybrid. The low level of employment protection is similar to the liberal regimes found e.g. in Britain. On the other hand, the comprehensive social security system is on par with the systems prevailing in the other Scandinavian welfare states. Both in the international as well as in the Danish debate there has, from time to time, been a tendency to jump to the conclusion: that the success of the last decade can be attributed to the above "flexicurity model". Seemingly, the model manages to reconcile the dynamic forces of the free market economy with the social security of the Scandinavian welfare states.

It is therefore essential to point out that the positive development in the Danish labour market since the early 1990s is not attributable exclusively to the Danish "flexicurity model" as described above. Without a successful balancing of the macroeconomic policy and the trends in the international business cycle, the growth in employment and the falling unemployment would not have been possible. The coinciding of low inflation and a halving of unemployment is also a by-product of a new agenda for collective bargaining and wage formation, which helped the labour market adjust to the shift from high unemployment to full employment while keeping wage increases at a moderate level and not departing from the international trend towards low inflation.

However, it is equally important to draw attention to the long historical perspective. The combination of high mobility between jobs and a well-developed social safety net has been characteristic of the Danish labour market for decades, and has been an important factor in the successful shifts from an agricultural to an industrial and to a service economy, which Denmark has

completed since the Second World War. Even though the term “flexicurity” is new, it is in fact only trying to describe and rephrase some deep-rooted characteristics of the Danish labour market. With a starting point in a view of flexibility and “flexicurity” also including a longer historical perspective, this review intends to summarise the existing research-based knowledge on the contribution of the flexibility of the labour market to post-war growth in employment and prosperity in Denmark. The objective is therefore not to evaluate the complete set of reasons for the developments on the Danish labour market. The focus will be solely on the contributions of the flexibility and the “flexicurity model”, and on the challenges facing the model in future.

When drawing up the review, a number of choices and selections were made. It has not been possible to include all research contributions, or treat them in depth. The emphasis will be on recent Danish findings; also including, however, international research where particularly relevant. Reservations that would be important in a research context have had to be left out or merely hinted at. The objective has been to present a review that is of interest to a wider community, and at the same time gives a fairly accurate account of the latest research-based knowledge on the value of the flexible Danish labour market for the entire economy, and the challenges it faces.

It should also be noted that “research” in the present context is not only limited to basic research carried out at universities. Much relevant – especially empirical – labour market research is carried out at the public sector research institutions, and under the auspices of “think tanks” such as the Secretariat of the Danish Economic Council (*Det Økonomiske Råd*), the Economic Council of the Labour Movement (*Arbejderbevægelsens Erhvervsråd*) and various commissions and committees. The results from this research have therefore been included in the review of the flexibility of the Danish labour market.

The following three main sections of the review will focus on different aspects of the Danish labour market flexibility.

Based on a discussion of different forms of flexibility, Section 2 provides an overview of the existing knowledge on the Danish labour market flexibility in a comparative perspective.

Section 3 then presents the link between flexibility and security in the labour market. This section also refers to international literature on “flexicurity” and “transitional labour markets”. It will furthermore describe the historical and political conditions behind the Danish model, and its importance for the economy and social conditions.

Finally, Section 4 will discuss the challenges facing the Danish model. How will the future of the model be affected by the technological changes, globalisation and changes in the welfare state? How can the labour market policy be innovated to reinforce its flexibility?

Section 5 summarises the main points of the report, and suggests some areas in need of further research.



## 2. The flexible Danish labour market

The purpose of this section is to describe and evaluate the importance of the various dimensions of the flexibility of the Danish labour market. In continuation of the presentation of the flexicurity triangle in section 1, the main emphasis will be on the forms of flexibility central to the relationship between flexibility and security. Where possible, a comparative perspective will be included.

### 2.1 The flexibility concept

”Flexibility” is commonly used as a general term to describe a desirable quality in a labour market, without specifying exactly which kind of flexibility is referred to, or which groups in the labour market are supposed to be flexible.

Generally speaking, flexibility refers to the idea that there exist some mechanisms of adjustment in the labour market, which can lead to a (desired) change if the labour market is hit by outside shocks, e.g. a fall in demand or changes in the exchange rate.

Since Atkinson’s classic analyses from the mid-1980s, a terminology has developed in the research community that tries to pinpoint different dimensions of the flexibility concept and develop indicators of the scope of flexibility and its importance for the functioning of the labour market (Atkinson, 1984; Atkinson & Meager, 1986). The most important forms of flexibility are:

- *Numerical flexibility* refers to the scope for adjusting the number of employees at the individual workplace through hiring and firing
- *Working time flexibility (temporary flexibility)* is achieved through adjusting the number of working hours (e.g. working overtime or part-time) and their placing (working shifts or weekends)
- *Functional flexibility* is about the scope for transferring employees between job functions (horizontally or vertically) and is closely related to *organisational flexibility*, which is concerned with changes in the organisation of operations and management
- *Wage flexibility* refers to the rate at which nominal and real wages respond to changes in supply and demand for labour

The literature offers examples of more detailed typologies, but the four forms of flexibility mentioned above tend to be the ones used in the vast majority of presentations. For a more detailed discussion of the various flexibility concepts and their interactions, see Lind (2004).

### 2.2 Flexibility and labour market regulation

In flexibility discussions, flexibility and public regulation are often presented as each other’s opposites, and a fully flexible labour market is considered to be a labour market without any restrictions whatsoever on the behaviour of the actors involved (see e.g. Monastoriotis, 2004, p.4). Incidentally, the same writer maintains that absence of public regulation of the labour market does not necessarily lead to increased flexibility. In some cases, public intervention can actually increase flexibility because it corrects market failures, e.g. when it comes to developing the general qualifications of the labour force, where the individual enterprise has little incentive to invest in education and training.

In the international debate about labour market regulation and rigidities, the OECD has since its Job Study from the mid-1990s been strongly advocating deregulation of the labour market. However, it seems as if the OECD has adopted a more nuanced view of the role of labour market regulation in recent years (cf. chapter 2 in OECD, 2004). Recent publications from the ILO have also been examining the interaction between labour market regulation and flexibility (Auer, 2000; Auer & Casez, 2003).

The dilemmas connected with (de)regulation of the labour market are also a central issue in one of the most influential books in this field in recent years (Esping-Andersen & Regini, 2000). A recurrent point is that public regulation of the labour market has complex and contradictory effects at many levels. Deregulation in one area can lead to increased regulation in another, possibly in the form of new informal norms. In a Danish context, the contribution of Anders Bjørklund to the book is of particular interest; he points out a number of differences in the development in Denmark and Sweden, e.g. as to the content and the organisation of labour market policy and as to employment protection of the employees. It is furthermore important to note that one of Esping-Andersen and Regini's points is that an active labour market policy cannot alter the level of unemployment, but it can have an effect on its structure (e.g. young people, women and unskilled workers, cf. p. 337ff.). Their policy suggestion for a European "Third Way" is to implement a partial deregulation targeting the "outsiders" of the labour market, but leaving the regulation for the core labour force largely intact.

### **2.3 Forms of flexibility on the Danish labour market**

#### *Numerical flexibility and employment protection*

That the Danish employment system has attracted considerable international attention in recent years is due, above all, to the achievement of remarkable results in the shape of a high rate of employment and low unemployment figures. However, as mentioned in section 1, there is increasing acknowledgement that these results were probably not brought about only by a successful combination of favourable international economic trends in the 1990s, a balanced macroeconomic management and the labour market reforms of the past decade. To fully understand the capacity for change evident not only in the last decade but over the entire post-war period, some fundamental traits of the Danish labour market must be taken into account as well.

It should be well-documented and recognised that the Danish labour market has substantial mobility between employers and that this high degree of job mobility is a structural characteristic in the sense that the level has been fairly constant – albeit with some cyclical variation – throughout the period for which statistical evidence is available, i.e. from the early 1980s. On average, between 25% and 35% of the Danish workforce change employers each year (see e.g. Bingley et al 1999; Arbejderbevægelsens Erhvervsråd, 2004). Some of these job changes involve spells of unemployment, which can be seen in the fact that between a third and a quarter of the labour force are affected by unemployment in a year. A certain cyclical trend is evident here as well, as the number of people registered as unemployed for a period tends to go up during a recession.<sup>2</sup>

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<sup>2</sup> It should be mentioned that the level of job creation and job destruction is quite high as well. Thus every year new places of work equivalent to 10-15% of total employment are created – and a corresponding number are destroyed by enterprises cutting down or closing down completely, cf. e.g. Arbejderbevægelsens Erhvervsråd, 2004.

Calculated like this, there is some variation in the numerical flexibility between groups in the labour market. Flexibility thus depends on placement in the job hierarchy, for instance; but even among high-ranking employees there is mobility between jobs of up to 25% of total employment. This numerical flexibility tends to be highest among employees in small firms, and in the younger age brackets. Nevertheless, the overall impression is one of rather high mobility for the major part of the labour market, irrespective of type of employees, size of enterprise and sector of industry (Arbejderbevægelsens Erhvervsråd, 2004).

In international comparison, the Danish labour market is also marked by high numerical flexibility. The standard indicator is here the average tenure with the same employer, cf. figure 2.1.

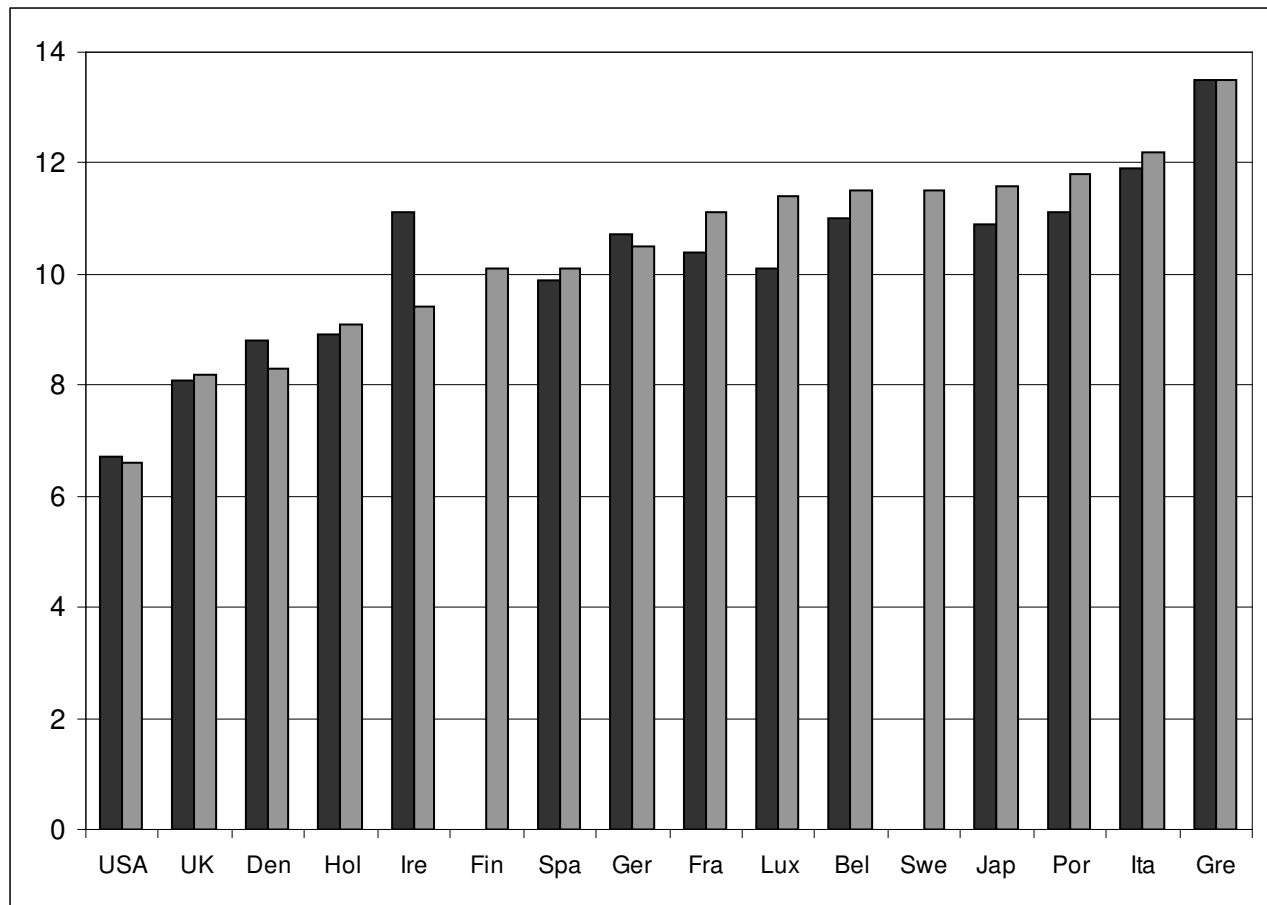


Figure 2.1: Average tenure with the same employer in a number of OECD countries, 1992 and 2000. Source: Auer & Casez (2003).

As appears from the figure, Denmark is among a group of countries with a rather high degree of numerical flexibility, comparable to the United Kingdom. In contrast, the average tenure in Sweden is almost 50% higher than in Denmark.

These differences may of course be the product of a number of reasons, e.g. the industry structure in the country in question. But it still seems that the most likely explanation of the variations in the numerical flexibility is the ease with which employers can hire and fire employees. The OECD has

been publishing indicators for employment protection in a number of member countries for a number of years. The most recent set of indicators was published in 2004, and the main results are illustrated in figure 2.2 (cf. OECD, 2004). The aggregate indicator is made up of three components reflecting the degree of regulation of permanent employment, collective dismissals and temporary forms of employment.

Considering Denmark, two main points can be deduced from the figure. First, regarding the level of the aggregate indicator Denmark is placed in a group of countries having the overall lowest strictness of protection of employees. Second, employment protection in Denmark is particularly low for permanent employment, only lower in Switzerland, Canada, Britain and - with its extremely low level of employment protection - the United States. At the other end of the scale, high levels of protection are found in a number of countries that also score high on average tenure, including Sweden, which stands out with a high level of protection of exactly permanent employment. Not surprisingly then, there seems to be a close correlation between in particular the degree of employment protection and the scope of numerical flexibility.

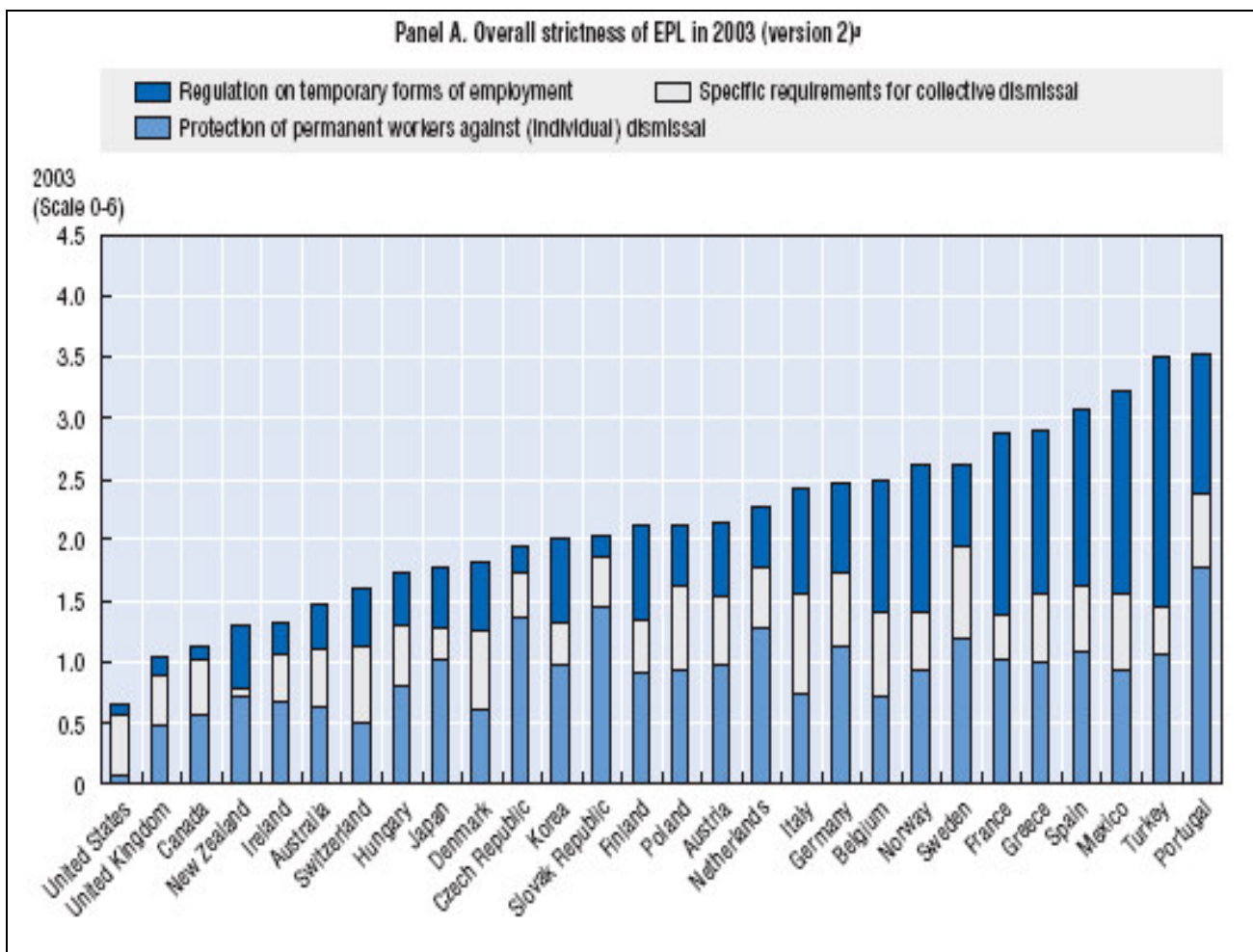


Figure 2.2: Index for employment protection in a number of OECD countries, 2003. Source: OECD (2004).

OECD (2004) uses a number of statistical analyses of the correlation between the degree of employment protection and various indicators of the dynamics and functional capacity of the labour market. Both the level of flows in and out of employment and long-term unemployment appear to be affected to some extent by the level of employment protection; thus long-term unemployment, for instance, tends to increase with increasing protection. A likely interpretation seems to be that restrictions on the freedom to fire employees lead to a more pronounced selection among job applicants, using previous unemployment as a marker (statistical discrimination, cf. Eriksson & Lagerström 2004). In Finansministeriet (2004) employment protection is used as one of several variables to explain the results as to the labour market adaptability produced by the different labour market political regimes identified in the EU. One of the results found is that a high degree of employment security leads to an increase in average unemployment spells and reduces the capability to adjust from high to low unemployment (hysteresis).

Issues relating to the wider economic consequences of low employment security and a high level of numerical flexibility have only been dealt with in research to a limited extent. A number of positive as well as negative effects would be expected.

On the positive side, it might be expected that low employment protection – and the consequent high numerical flexibility – would facilitate the change processes continuously required due to introduction of new technology and changing national and international competition. Individual enterprises and whole industries in decline would be able to reduce their workforce in line with falling demand for their production. And vice versa, new jobs could be established more easily when employers would not have to worry about high fixed wage costs. In reality, much of the ongoing general debate about the advantages of “increased flexibility” in the labour market implicitly centres on this facilitation of structural changes.

However, high numerical flexibility can also have a number of adverse economic consequences.

An essential problem in this context is the way in which it affects the incentives of the enterprises to develop the formal and informal competences of their employees. A simple calculation of the profitability of investing in education and training will show that in particular resources spent on developing the general qualifications (and to a certain extent the personal qualifications) of an employee risk being lost, from the point of view of the individual employer, if there is a high probability that the employee is leaving the firm. The high mobility on the Danish labour market might thus lead to under-investment in education and training, especially in the more general qualifications. Existing data on the scope of adult vocational training on the Danish labour market suggest that this thesis can both be proved and disproved. On the one hand, there is a lower level of adult vocational training among unskilled workers, who are usually highly numerically flexible. On the other hand, the scope of adult vocational training in general on the Danish labour market is top of the league when compared with the other EU countries. A possible explanation for this apparent paradox may be found in the existence of a comprehensive public training and education system, which – from an economic point of view – corrects the “market failure” resulting from the high mobility. Another explanation might be that the enterprises themselves in some cases use adult vocational training as a tool to retain employees who would otherwise have a high degree of voluntary mobility.

Another potential risk following from the high mobility is that it may reduce the enterprises’ sense of responsibility for occupational health risks and for employees with emerging health problems,

because the ties between employer and employees are generally weaker in situations of high mobility. A problem related to this risk could be that the high rate of transitions in the labour market also increases the risk of “stumbling accidents”, meaning that people – due to especially involuntary – unemployment get excluded in a vulnerable position. This may happen as a consequence of the well-known damaging effects of unemployment spells as such, or because longer-term unemployment in itself can be a negative marker in a job application situation. However, as indicated above, there are no immediate indications that the level of long-term unemployment is increased by a combination of low employment protection and high mobility.

Finally, the discussion about the particular form of flexibility related to the much hyped “free agents” will have to be mentioned. Free agents are persons placed in the grey zone between being employees and self-employed as “freelancers”, sole traders etc. As the content of work is gradually changing, it is often assumed that the forms of employment will change as well, towards more atypical and short-term contracts (Glahn, 2003). However, Statistics Denmark’s workforce survey shows that approx 91% of the employed are still employed under the usual permanent employment contracts (Danmarks Statistik AKU, 2<sup>nd</sup> quarter 2004). Comparisons with previous years do not show any clear trend towards a rapid shift towards less stability in employment conditions: in 1999 the percentage of employed in permanent jobs was also 91%.

This observation is in line with international analysis also indicating a high degree of stability in employment relations (Auer & Cazes, 2003, chapter 2). In international comparisons as well, Denmark figures as a country where atypical employment forms are relatively rare. Thus the European Foundation for the Improvement of Living and Working Conditions in its survey for 2000 assesses Denmark as the country in the EU (apart from Luxemburg) with the highest share of employed in permanent employment (European Foundation, 2002). An important factor in this context is of course, as mentioned before, that Danish employees enjoy limited formal employment protection compared to other countries. In this perspective, most Danish employees are in fact “temporarily employed”, which may be the reason why Danish employers are less inclined to use atypical employment contracts than employers elsewhere.

As can be seen, there is no immediate research-backed reason to presume that the scope of fixed-term employment is on the increase. As pointed out by Madsen & Petersen (2000), this constant share of atypically employed over the past 15-20 years masks the fact that the characteristics of the atypically employed have been changing. Previously they were primarily unskilled workers with relatively poor earnings potential (apart from freelance journalist and similar groups). Now the group also includes highly educated workers within a very broad range of service functions – advisers, consultants and IT people etc – who typically have fixed-term contracts or are self-employed. The growing debate about “free agents” is thus more a reflection of the changing nature of the group than of its size.

### *Working-hour flexibility*

Throughout the post-war period, average working hours have been declining steadily due to both longer holidays and a shorter working day. However, the decline has evened out in recent years, and it seems that the average working hours can be expected to stagnate or fall only slightly in the coming years. The development in the average working time, however, spans great differences in the distribution of working hours on groups of employees and between genders, cf. figure 2.3.

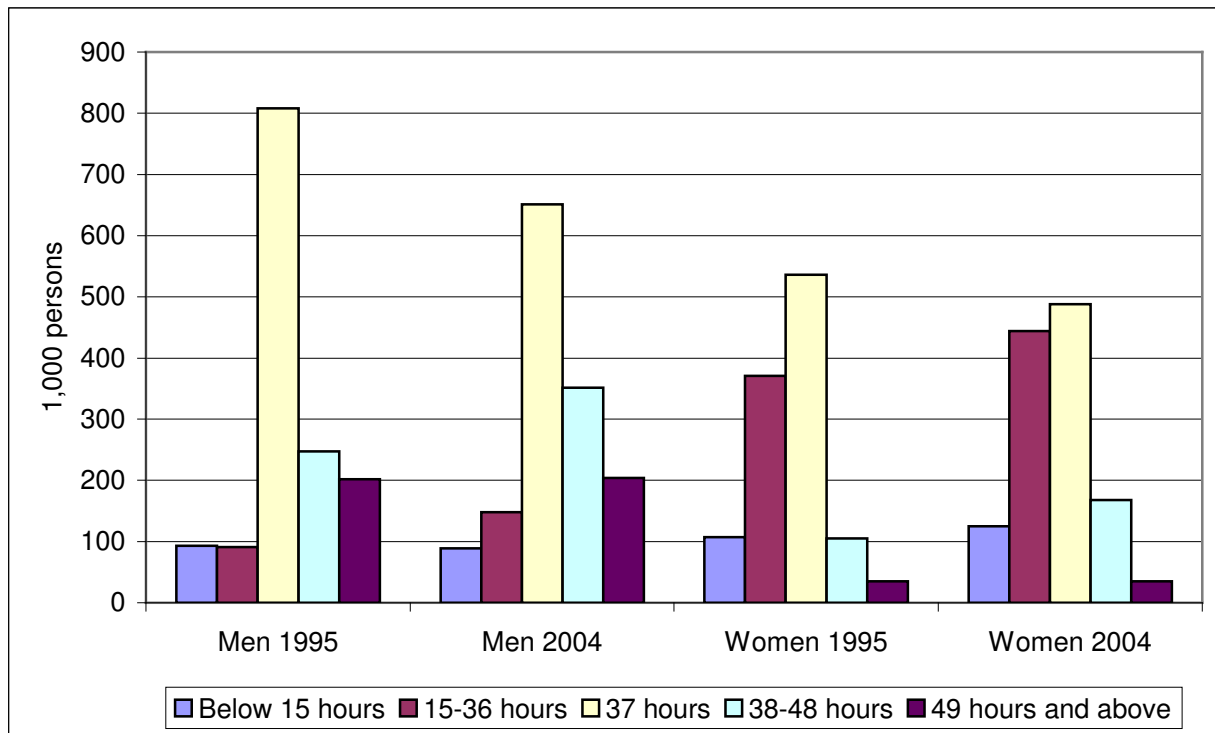


Figure 2.3: The distribution of working hours on men and women, in 1995 and 2004, 1,000 persons. Calculated on the basis of the Statistics Denmark's Workforce Survey (AKU)

The typical (predominant) working time for both sexes is still a 37-hour working week, but a considerably higher number of women than men work part-time (15-36 hours/week), whereas far more men than women work longer or much longer hours than the standard working week.

At the same time there has been a marked increase – for both sexes – in the proportion of employees working more than the agreed working hours. For men in the age group 30-54 years the proportion has thus risen from 37% to 43% over the period 1995-2003. For women the proportion has increased from 15% to 18%. The results seem to indicate a rapidly expanding spread in the pattern of working hours, in which the ideal of a “normal” working week becomes less and less realistic, and a large number of employees work much longer hours than required by the standard working week. The decline in average working hours thus seems to be accompanied by greater flexibility as to the number of hours worked by the individual employee.

A similar observation based on data for the period 1984-2000 was made by Lind (2004), who also points out the growing number of people working longer than the standard working hours (a doubling from 1984 to 2000). The development in the proportion of people working half-time or part-time is rather stable, when looking at the actual number of hours worked. However, the number of people formally registered as part-time workers is falling, from 20% in 1984 to 14% in 2000, with a slight increase for men, but a halving of the part-time proportion for women (from 34% to 17%) cf. Lind, 2004, table 4. Lind explains this by a tightening of the rules for eligibility for supplementary unemployment benefit for part-time employees.

As for the placing of the working hours and the employers' scope for varying the working hours of their employees, there has been a gradual expansion in the course of the 1990s, both as a result of

collective bargaining and of a liberalisation of commercial opening hours. Surprisingly, there are no clear signs that the proportion of persons working unusual hours (e.g. night shifts or weekend shifts) has increased over the same period (Lind, 2004, table 6).

The consequences of working-time flexibility as experienced by employees have been investigated in a comprehensive analysis of the way Danes spend their time, which shows that 7% of all employees felt stressed at work almost all the time, and 48% sometimes (Bonke, 2002). Furthermore, it shows that women are more likely to experience stress than men. On the other hand, another result of the analysis is that there is widespread satisfaction with the working hours on the Danish labour market. Two thirds of employees thus reply that they work the number of hours they wish to work. For the remaining one third, more want shorter than longer working hours, and the net hour-change wanted can be calculated to just below minus 3 hours a week on average.

The flexibility in the distribution of working hours must be seen in combination with the time spent on other things, such as care, housework and leisure activities. Major differences between the sexes are still evident here (see e.g. Lausten & Sjørup, 2003). Men spend more hours on paid employment than women, and the differences become more pronounced when there are children in the family. The woman's time spent on paid employment halves, whereas the man's working hours typically increase a little. Women find the time spent on children and housework by cutting down on their paid employment, whereas men cut down on their leisure activities.

### *Functional flexibility*

Part of the debate about the working life of the future centres on the major changes already happening, or expected to happen in the next few years. In several publications, the staff at the Copenhagen Institute for Futures Studies have described the jobs of the future as “UFO jobs” – characterised by Un-definable, Floating Objectives – and other key adjectives such as knowledge-based, creative and flexible (Gitte Larsen, 2003).

However, there is some scepticism as to just how common this type of working life is in Danish enterprises. In a comprehensive study of the prevalence of flexible organisation and management forms in Danish enterprises based on data from 1995, it is concluded that approx 1/5 of Danish firms are characterised by flexible management forms, whereas a good 1/3 have mixed management forms (Csonka, 2000). There are furthermore no clear indications that the proportion of enterprises with flexible management forms is on the rise. The same study estimates the proportion of employees whose jobs can be described as flexible. Again the proportion is modest – 15% in both 1990 and 1995. Both results are stated as being in line with international findings.

An extensive analysis based on data from 1996 and 2001 grouped Danish enterprises according to the extent to which they had introduced organisational changes which could be interpreted as being in accordance with a “learning organisation”. Examples include self-managing teams, tailor-made education and training activities and close cooperation with research environments (Nielsen & Lundvall, 2003; Nielsen, 2004). Almost 30% of the firms were placed in groups characterised by a high degree of learning, and 44% in a mid-range group. The learning organisation seems to be most common among large enterprises, and within the manufacturing industry and business services. About half the enterprises had carried out organisational changes in recent years, and of them the majority had also changed their management structure.

This analysis presents another interesting result: enterprises characterised as “learning” were far more likely to innovate new products. They also had a high rate of employee participation. The analysis thus paints an optimistic picture of the interaction between management and employees in connection with change processes. The middle managers as well as the man on the floor have more often than not helped further the development of the organisation. The same is true of the local union representative and the works councils. The change processes typically lead to the establishment of a “cooperation regime” in the enterprises, which combines a number of different concrete forms of cooperation.

The same analysis also looks into the human resources policies used by enterprises with a high score on development in relation to the knowledge economy. Not surprisingly, these enterprises attach great importance to retaining and integrating their staff with emphasis on functional and temporary flexibility. Typically, compared with other enterprises, they also operate with a longer time horizon in their staff planning for all groups of employees; even though they, too, have a considerably longer time horizon for highly educated than for low-skilled employees. In many cases, the enterprises in the knowledge economy have also strengthened their cooperation with public labour market and educational institutions.

Finally, a recent comparative study based on a number of indicators for the year 2000 has assessed the prevalence of four different forms of organisation: the learning organisation, the “lean production” organisation, the Taylorist organisation, and a residual group labelled “traditional” (Lorenz and Valyere, 2004). Considerable differences exist between the individual EU countries. Up to 2/3 of employees in Denmark and the Netherlands are thus employed by “learning organisations”. High proportions are also found in Sweden, Finland and Austria. The EU average is 39%.

These results demonstrate that differences in definitions of concepts and data availability can produce different evaluations of the prevalence of new organisation forms. On the other hand, the comparative analysis illustrates the existence of quite considerable national differences between the EU member states, and it highlights a “Nordic cluster” also found in studies within other areas, e.g. employment policy regimes or welfare state models (Madsen et al, 2003; Arts & Gelissen, 2002).

### *Wage flexibility*

The scope of wage flexibility can be discussed at both macro- and micro-level. In this review the focus will be on the macro-level where wage flexibility is closely linked to the question of the correlation between unemployment and wage inflation: how strongly does the average rate of wage increase react to rising or falling unemployment? (cf. e.g. Pichelmann et al., 2004).<sup>3</sup>

In a long-term perspective, the most remarkable thing about the development in Denmark in recent years is the fact that the nature of the correlation between unemployment and the rate of wage increases has changed, as will appear from the simple Phillips curve in figure 2.4, showing the relationship between unemployment and the percentage rate of nominal wage increases.

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<sup>3</sup> The issue of wage formation at enterprise and employee level is at present being researched in a project on *The decentralisation of Danish wage formation* by Flemming Ibsen and Jørgen Stamhus, CARMA.

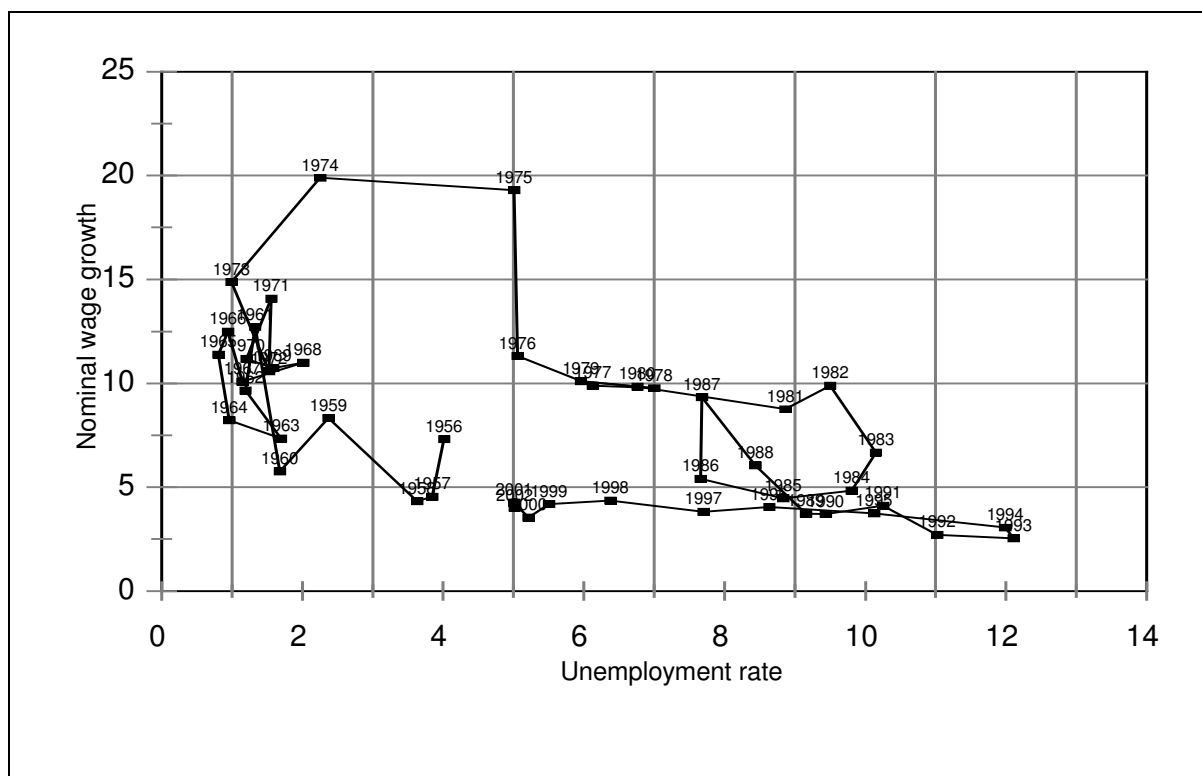


Figure 2.4: The Danish Phillips curve, 1956-2002. Source: Own calculations based on the ADAM databank.

As discussed in more detail in Boje and Madsen (2003), the Danish Phillips curve can be divided into three periods. The first two periods from 1956-1973 and 1973-1993 respectively can be interpreted as two standard falling Phillips curves, but placed at different levels. The third period is from 1993 onwards, and the curve has an almost even course. Interpreted in terms of “structural unemployment”, this last course of the curve seems to indicate a marked fall over the last decade in the level of unemployment compatible with low and stable wage increases. This remarkable shift – which it is possible to interpret as a strong increase in the macroeconomic wage flexibility – has of course been the object of considerable attention and a number of interpretations (cf. e.g. DØR 2002, chapter 3).

Whereas there is general agreement that a shift towards a marked reduction in structural unemployment has indeed taken place, it is less obvious which conditions to credit with the success. The coincidence in time with the series of labour market reforms launched in 1993-94 has of course made a number of observers point to a better-functioning labour market policy as an important factor behind the falling structural unemployment (e.g. Larsen & Langager, 1998; DØR 2000, section I.5; Hendeliowitz, 2003). However, other explanations are possible as well – such as a generally falling level of inflation internationally, the increased sense of responsibility of the trade union movement towards the economic development in general, decentralised wage formation and the experiences gradually gained by employees that increases in real incomes can go hand in hand with low nominal wage increases (Madsen, 2006).

Briefly, on the issue of wage flexibility at the micro-level, wage differentials are low in Denmark; however, there is surprisingly little evidence that this has led to problems for incentives to seek or accept jobs, cf. section 4. There are, however, signs both in the public and the private sector that wage differentials tend to be on the increase (bonus pay, share options, profit sharing, and other new, more individualised pay forms).



### **3. The interaction between flexibility and security**

As mentioned in the introduction, the contraction of “flexibility” and “security” into flexicurity, has become one of the most popular labour market concepts in recent years, and one that seems to cross European borders relatively easily. One of the reasons is no doubt that flexicurity as a political strategy offers a ‘win-win’ situation, bridging seemingly irreconcilable demands. On the one hand, the demand for more flexibility in the labour market, in the organisation of work and from employees; on the other the demand for increased security, especially for disadvantaged groups both in and outside the labour market. Another reason could be that the concept is difficult to define in precise terms, and consequently various actors are able to read their own understandings and interests into the concept.

In this section we will try explore the concept of flexicurity in more depth and describe how various understandings of it coexist (as political strategy, model description and analytical concept), and how it is possible to mix various forms of flexibility and security into different combinations. This is illustrated by looking at the ways in which a number of European labour market regimes combine flexibility and security. Then the historical-institutional conditions for the particular Danish flexicurity model will be described; a model which is the product of a long historical development and social compromises in different policy areas – and not the product of some elaborate master plan. At the end of this section, we will take the analysis to a deeper level, and investigate the advantages and disadvantages of the Danish flexicurity model for a number of sub-groups on the Danish labour market.

#### **3.1. What is flexicurity?**

It should be noted, before attempting to answer this question, that the idea of flexicurity is relatively new, both as a political strategy and as research area. To put in a simplistic way, economists have often tended to take a one-sided view at the positive consequences of flexibility for labour markets, enterprises and employees, and have tended to see social security and employment security as impediments to competitiveness and economic growth. On the other hand, labour market and social policy researchers leaning more towards political science and sociology have usually chosen to focus more on the positive consequences for distribution and welfare, but have rarely taken into account its consequences for the flexibility of the labour market or enterprises.

The fundamental idea that the flexicurity concept rests on is that flexibility and security are not contradictory, but 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 (cf. Ozaki 1999). 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, many employers are beginning to realise that they might have an interest in stable employment relations and in retaining employees who are loyal and well-qualified. On their part, many employees have realised 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 (Wilthagen og Tros 2004). So, the foundation is there for a new interaction between flexibility and security.

As a concept, the phrase flexicurity was first coined in the Netherlands in the mid-1990s, based on a number of specific conditions, which will be outlined briefly here. The Netherlands has, in contrast

to Denmark, a rather restrictive system for dismissal of permanent employees. Employers must ask for permission to dismiss workers either from the local Centres for Work and Income or the local courts; furthermore employers are responsible for financing a good part of the unemployment benefit system through social contributions. Permanent employees are also covered by relatively high employment protection in the Netherlands, which has induced enterprises to increase flexibility in the workforce by hiring groups of temporary workers on fixed-term contracts. Generally these “atypical” workers have a lower level of social security (e.g. rights to unemployment benefit, pensions and holidays) and a lower level of employment security than the permanent staff.

The whole point 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. The protection against dismissal for permanent workers was thus modified, the system requiring permits for temporary work agency was abolished, and the employment protection of atypical employees was strengthened. Another important aim was to encourage a development from job security towards employment security, in particular through a more active labour market policy. The inspiration for this legislation came partly from a collective agreement between the employers, the trade unions and the temp agency START from 1993, partly from an agreement in the ‘Labour Foundation’, which is a central body for consultation between employers’ organisations and trade unions. The Dutch legislation on flexicurity is thus a typical example of the tradition for corporatist coordination (Wilthagen 1998; Wilthagen & Tros 2004).

Flexicurity is, however, not a concept describing only the Dutch labour market situation. The wish to combine flexibility with security is also evident in the policy discourse at EU level, in particular in the Commission’s Green paper from 1997: *Partnership for a New Organisation of Work*, which states: “*The key issue for employees, management, the social partners and policy makers alike is to strike the right balance between flexibility and security*”. At a number of EU summits, and especially in connection with the Lisbon strategy from 2000, as well as in the European employment strategy, this ambition to strike a better balance between flexibility and security has been voiced repeatedly. However, within the EU system no concrete instruments or guidelines as to how to achieve this desirable state have been forthcoming. The concept of flexicurity has attracted some attention in recent years in both Germany and France, where it has been seen as a way to loosen the restrictive rules on dismissal and improve labour market flexibility.

Even in Denmark, an explicit understanding of flexicurity seems to be emerging, for instance when the Prime Minister Anders Fogh Rasmussen at the Liberal party’s national congress in November 2004 said:

*“In the old days, people would probably have said that security in the labour market equalled a good, steady job and long terms of notice in case of dismissal. But in the labour market of the future, security will mean being able to adapt to new situations”.*

What this quote expresses is the same as the Dutch example: a wish to move from job security to employment security; bearing in mind that the formal employment protection for practically all groups on the Danish labour market is very limited as it is. The special Danish combination of flexibility and security is emphasised later in the same speech:

*”By international standards, we have a very flexible labour market. It is actually highly praised abroad and the envy of many other countries. One of the reasons it is so flexible is that it is easy for Danish employers to hire and fire employees. There are hardly any restrictions at all. This is the way we have chosen to organise the Danish labour market. This is, however, only possible because we have a high level of social security. Our level of unemployment benefit is high by international comparisons, and for those who have no unemployment insurance we have cash benefits, also at a rather high level. We have flexibility because we have a labour market with social security”*

In contrast to previously, when high social security was considered an impediment to a large supply of labour, a flexible labour market and competitiveness, this quote to some extent demonstrates a new understanding that the high level of social security is the very precondition for a flexible labour market. It also indicates an understanding that cuts in or limitations on social security will lead to a less flexible labour market.

A possible explanation for this new understanding of flexibility and security as mutually dependent might be found in the outcome of the aborted unemployment benefit reform in autumn 2003. In connection with the Budget negotiations, the Minister of Employment had promised to find savings of DKK 800 million by making highly paid employees finance the first 5 weeks of unemployment spells themselves. But the proposal met with massive criticism from especially the labour market organisations. The trade unions threatened to escalate their demands for the next collective bargaining round and demand longer notice periods. And the employers’ associations feared that the flexibility of the labour market would be undermined if the rights to unemployment benefit during temporary lay-offs and supplementary unemployment benefits were restricted. As the government had furthermore been promising, during the 2001 election campaign, not to make any general cuts in social security benefits, the proposal was removed after a short while. The Employment Minister has since said:

*”The Government’s objective is to lower taxes even more. But it must never be achieved at the expense of the flexibility in the labour market. Tax cuts must not be financed by lowering benefit rates. They are an important factor behind the flexibility of the Danish labour market”* (Claus Hjort Frederiksen’s speech at the labour market political conference held by the Danish Metal Workers’ Union on 18 November 2004).

Nevertheless, the exact meaning of flexibility and security, and especially the contraction of them into “flexicurity”, still seems rather elusive, and therefore we are going to attempt a definition of the concept in the following. An important reason for the increasing popularity of the concept is, however, probably the very fact that it is so hard to define, and consequently different actors can mould the concept to fit their own interpretations and interests. In literature, at least three different – if overlapping – understandings of flexicurity can be identified: flexicurity as a policy strategy, as a state of the labour market, and as an analytical concept.

### *Defining flexicurity*

It would be obvious to define flexicurity as “social protection for flexible work forces” (cf. Klammer & Tillman 2001; Ferrera et al. 2001). Wilthagen, however, thinks that flexicurity has a wider scope than that, and therefore defines the concept as a *policy strategy*, more precisely as:

*”A policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organisation and labour relations on the one hand, and to enhance security – employment security and social security – notably for weaker groups in and outside the labour market, on the other hand”* (cf. Wilthagen 1998; Wilthagen & Rogowski 2002; Wilthagen & Tros 2004).

To qualify as ”flexicurity”, the strategy, policy or programme in question must be synchronous (have both elements of flexibility and security at the same time), deliberate (the actors must be conscious of this duality), and targeted disadvantaged groups (people at the edges of or outside the labour market). This is, however, a rather narrow definition, which is difficult to apply to anything apart from describing the Dutch flexicurity legislation mentioned above. Therefore the definition has been broadened by Wilthagen to describe a *“certain state or condition of the labour market”*:

*“Flexicurity is (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 enhance competitiveness and productivity”* (Wilthagen & Tros 2004: 170).

In this definition, flexicurity is no longer a deliberate policy strategy, which makes the definition more relevant in a Danish and comparative context. In Denmark it is difficult to find examples of flexicurity as a result of deliberate strategies, even though various labour market political schemes can be interpreted in a flexicurity perspective (e.g. the early retirement scheme as a combination of numerical flexibility and social security, or the job rotation scheme as an example of functional flexibility and employment security). But flexicurity can be used to describe a particular state of the Danish labour market, which has been achieved gradually through social compromises between the parties on the labour market and in interaction with the political system. Whether flexicurity can be said to support the labour market career for persons in a relatively disadvantaged position on the labour market is an open empirical question, which we will come back to.

In a Danish context, it therefore makes most sense to talk about flexicurity as a stylized description of some fundamental characteristics of the Danish *labour market model*, more specifically the combination of external numerical flexibility (low job security), high social security (generous welfare system) and high employment security (active labour market policy), cf. figure 1.1. It needs to be pointed out that this particular Danish combination of flexibility and security is not targeted at disadvantaged groups on and outside the labour market as such, but is of a more general nature, and may have different effects on different groups on the labour market, cf. section 3.4 below.

The third and final understanding of flexicurity is as an *analytical frame* that can be used to analyse developments in flexibility and security and compare national labour market systems. It is this analytical frame we are going to use below to demonstrate a number of national combinations of flexibility and security. As an analytical frame, flexicurity is closely related to another popular labour market concept, the idea of the *Transitional Labour Markets*, TLM (cf. Schmid 1995, 1998, Schmid & Gazier 2002). The basic assumption in the TLM approach is that the boundaries between the labour market and various social systems (such as the educational system, the unemployment system, pension system, private households) must become more open towards transitional states

between paid employment and productive activities outside the market. The aim is a new form of full employment, which is different from (male) full-time, life-long employment with the same employer, but is instead a “floating equilibrium” of a 30-hour working week over a lifetime, for both men and women. That is, a development from income security to employment security similar to the ideas behind the flexicurity concept. Flexicurity is seen in this context as an implementation strategy – or even as the end goal – for a TLM labour market, as it is assumed that the transitions between the labour market and other social systems will only be possible if adequate security is provided for the individual (Schmid & Schömann, 2004). “Good transitions” are regarded as temporary stepping stones for the individual, which may lead to social inclusion, and which secure productivity and competitiveness for employers (cf. also Madsen 1997; Bredgaard 2004c).

### 3.2. Flexicurity in different labour market systems

Both flexibility and security are multi-dimensional concepts, which come in a variety of shapes. Using Atkinson’s well-known model of the flexible enterprise (Atkinson 1985, Atkinson and Meager 1986) as a starting point, it is possible, as mentioned in section 2.1, to distinguish between four different forms of flexibility: numerical flexibility, working time flexibility, functional flexibility and wage flexibility. The groundbreaking aspect of the flexicurity concept is the linking of these four forms of flexibility with four forms of security. 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 labour market, training and education policies play a key role. Third, income security, which relates to being secured income in case of unemployment, sickness or accidents, and is expressed through the public transfer income systems, such as unemployment and cash benefit systems. And finally, combination security, the possibilities available for combining working and private life, e.g. through retirement schemes, maternity leave, voluntary-sector unpaid work etc.

As illustrated in the figure below, there are in theory sixteen potential combinations of flexibility and security, which, however, are not all equally logical in practice. This matrix is a heuristic tool, either to identify different flexicurity policies or combinations of flexibility and security in certain schemes, or to identify stylized relationships between flexibility and security in different national labour market regimes. We are using the matrix in the last-mentioned sense.

|                                 | <b>Job security</b> | <b>Employment security</b> | <b>Income security</b> | <b>Combination security</b> |
|---------------------------------|---------------------|----------------------------|------------------------|-----------------------------|
| <b>Numerical flexibility</b>    |                     |                            |                        |                             |
| <b>Working time flexibility</b> |                     |                            |                        |                             |
| <b>Functional flexibility</b>   |                     |                            |                        |                             |
| <b>Wage flexibility</b>         |                     |                            |                        |                             |

Source: Wilthagen 1998; Wilthagen & Tros 2004.

Figure 3.1. Combinations of flexibility and security

Each country has its own forms and combinations of flexibility and security. In Germany and Belgium for instance, the emphasis is on more traditional forms of flexibility (working time flexibility and functional flexibility in internal labour markets), whereas the focus in both Denmark and the Netherlands is to a greater extent on numerical flexibility in the external labour market. The same goes for the security aspect, where Germany and Belgium still tend to focus on income and job security (even though the Hartz IV proposals in Germany can be seen as attempts to introduce more focus on employment security). There are, of course, also general tendencies observable across countries, such as increasing focus on wage flexibility, functional flexibility and elements of combination security. Some countries are in fact impossible to place within this matrix, as there is no synchronous attention to flexibility and security aspects. This is true e.g. of the USA, where numerical flexibility and wage flexibility rank prior to elements of security, or Spain, where the labour market is split into an insecure and flexible labour market for “atypical” workers and a secure, inflexible one for the full-time permanently employed (cf. Wilthagen et al. 2003).

The Danish development of the welfare state and the labour market points towards an interesting “hybrid” between the flexible, free-market welfare states characterised by high numerical flexibility (liberal hiring-and-firing rules) and the generous Scandinavian welfare regimes of high social security (relatively high benefit levels) (Madsen 1999, 2003, 2005, 2006). Some writers may be inclined to call this “hybrid” unstable and bound to eventually head off in one or the other of the two directions (Hall & Soskice 2001). However, when we have outlined the historical and institutional conditions behind the Danish flexicurity model below, it should be evident that this model is a result of a long evolutionary development, and is supported by relatively stable institutions and class compromises.

### **3.3. Historical and institutional conditions for the Danish flexicurity model**

The high job mobility (numerical flexibility) on the Danish labour market is a structural characteristic that fits the Danish industry structure well, dominated as it is by small and medium-sized enterprises (i.e. small internal labour markets). The low level of employment protection is also in line with a long, liberal tradition in the Danish welfare state (Kongshøj Madsen 1999, 2005a, 2005b).

The high level of job insecurity this implies for workers was made acceptable for the trade union movement by the development of a public unemployment benefit system, supplemented with cash benefits for non-insured unemployed. In its present form, this basic trade-off between flexibility and security dates back to the unemployment benefits reform and the establishment of the Public Employment Service in the late 1960s, when the state for all practical purposes took over the marginal unemployment risk (Jørgensen & Larsen 2003).

It was not until the mid-1980s and in particular early 1990s that the third leg of this “golden triangle” was added – the active labour market and social policy, which tries to motivate the unemployed to seek and accept jobs on the one hand, while on the other seeking to upgrade the qualifications of those of the unemployed who are unable to find their own way back into the labour market. That is, a policy which is both socially disciplining and socially integrating (Larsen et al. 2001).

An important precondition for this Danish labour market model is the traditions for corporatist regulation of the labour market. Actually this tradition goes back as far as the September

Compromise of 1899 when the trade unions recognised the rights of the employers to manage and distribute work in return for the employers' acceptance of the workers' right to union organisation. The September Comprise also laid the foundation of industrial dispute resolution on the Danish labour market, and supported a tradition of leaving it to the labour market parties themselves to negotiate wage and working conditions without state involvement, which has led to the establishment of a voluntaristic labour market model (Jørgensen 2002).

The Danish combination of numerical flexibility, social security and employment security is, however, not the product of a carefully designed and deliberate strategy, but the by-product of a long historical and institutional evolution and social compromises in a number of different policy areas. It is therefore difficult to copy or export the Danish flexicurity model, exactly because it is rooted in historical preconditions. The question at present is, however, whether the compromises and the preconditions the model is based on are stable and sustainable enough to withstand the challenges presently facing the Danish labour market and welfare system, cf. section 4. But first we are going to have a brief look at the implications of the Danish flexicurity model for a number of sub-groups in the Danish labour market.

### **3.4. Groups inside and outside the 'golden' flexicurity triangle**

As mentioned in the introduction, the Danish labour market is by international comparison characterised by high employment and relatively low marginalisation. Structural unemployment has been brought down to a relatively low level, especially since the 1990s; among other things due to an increasingly active social and labour market policy.

As already mentioned, OECD analyses indicate that high employment protection leads to high structural unemployment, cf. section 2. On the one hand, high employment protection probably leads to fewer dismissals during a recession, meaning higher job stability. Job stability for the employed is also presumed to be a condition for their willingness to engage in adult vocational training and life-long-learning activities, which has positive effects on both the employment security of the individual, and for the level of employment and economic efficiency in general. On the other hand, higher employment protection may have negative effects on the ability of the enterprises to adapt to increasing foreign competition, new technology or needs for organisational change. Another aspect is that employers may anticipate the difficulties in firing when hiring new employees during a recovery, which could make long-term unemployment even more entrenched. All this indicates that high employment protection can reduce the risk of dismissals, but at the same time make it even harder to jump the fence between unemployment and employment (OECD 2004).

The low employment protection and high numerical flexibility in Denmark has, however, affected different groups on the labour market differently. Young people looking for their first job or mothers returning to the labour markets probably find it easier to gain a foothold on the labour market because of the high job turnover. Youth unemployment in Denmark has in fact been low in recent years, despite some increasing unemployment for academics, and the employment and participation rates for women are among the highest in Europe.

For unskilled and older workers the situation is more complex. There is no special protection of older workers in Denmark, and no special costs associated with laying off older workers. The attachment of people over the age of 55 to the labour market is weaker than among younger age groups, even though the problems seem less pronounced in Denmark than in many other especially

continental and southern European countries. Older workers retire relatively late in Denmark (at 61.8 years on average) compared to an EU(15) average of 59.9; they have a relatively high employment rate (58%) vs. 38.8 in the EU(15) and a relatively high participation rate (60.4% for 55-64-year-olds in Denmark compared to a 42.8% EU(15) average (Bredgaard & Larsen 2005). But if older workers lose their job, it is much harder for them to find a new one, which may also be connected with the fact that older workers tend to get less adult vocational training than younger staff (cf. Larsen & Bredgaard 2005) and are discriminated by employers (cf. Jensen 2004).

High employment protection probably tends to reduce the number of hires, but at the same time probably also keeps the number of firings lower, which may benefit both older and unskilled workers. If there are high costs associated with firing older employees, employers may be more inclined to retain them until retirement; and may not be as concerned about hiring older workers, even though they are harder to fire, as they are already close to retirement (cf. OECD 2004). For unskilled workers, low employment protection and high job mobility mean that these groups are more often exposed to the employers' "productivity test", which can exclude some workers from the labour market. Unskilled workers furthermore often hold less secure jobs that are in danger of being outsourced to low-wage countries, cf. section 4.

Generally speaking, the combination of a flexible labour market and an extensive social security system must be said to be to the advantage of highly-skilled, mobile and flexible workers who are able to switch jobs and job functions easily. When enterprises have relatively easy access to hiring and firing workers, employers may be more reluctant to retain certain groups of employees or to upgrade the skills and qualifications of their staff, cf. section 4 below. It is therefore of the utmost importance that the public sector steps in and helps remedy the lack of investments in education and training, and encourages firms to retain employees who are at risk of being excluded from the labour market (e.g. older, unskilled or disabled workers, refugees and immigrants). In the next section we are going to account for the ways in which current trends in the labour market and labour market policy challenge each of the corners of the Danish flexicurity triangle.

## 4. The challenges facing the Danish flexicurity model

In this section, we are going to outline the main challenges facing the Danish flexicurity model in the coming years. The structure of this section follows the three corners of the flexicurity triangle. First, how the *flexible labour market* is challenged by globalisation, new qualification demands, demographic changes, and the consequent risks of marginalisation. Next, we will have a look at how the *social security system* (unemployment and cash benefit system) is challenged by problems of incentives, financial pressures, increasing international labour market mobility, and the future of the systems of the unemployment insurance funds. And finally, how the *active labour market policy* is challenged by the discussions of the different effects of the activation measures, a new balancing of the functions of the labour market policy, and by the shift from a two-tier to one-tier employment system. It is, of course, impossible to give an exhaustive description of each of these trends within the framework of this article; this section will only point out some overall tendencies and essential focal points.

### 4.1. Challenges to the flexible labour market

Rising unemployment figures in Denmark throughout 2002 and 2003 have again put the fear of globalisation at the top of the political agenda – greatly helped by a number of real-life examples of Danish enterprises outsourcing smaller or larger parts of their production to low-cost countries. Globalisation and outsourcing of jobs to particularly South East Asia are often pointed out as the most important challenges to employment and welfare policy facing the Danish labour market, both at present and in future. Globalisation is also a central issue for the Danish Ministry for Economic and Business Affairs' think tank, Tænketanken Fremtidens Vækst, which presented its preliminary analyses in the summer of 2004 (Tænketanken Fremtidens Vækst, 2004ab).

In the face of ever increasing pressure from international competition, outsourcing - of jobs, products, services or suppliers - presents a way for enterprises to reduce costs. Irrespective of the actual scope or nature of it, the very possibility of outsourcing is affecting the way the labour market functions, and may be the source of a sense of greater insecurity in employment relations (DØR 2004: 121). Technically, new information and communication technology allow more tasks to be carried out outside the firm, not only capital-intensive, but also knowledge-intensive processes requiring specialist knowledge (DØR 2004: 126). The fear that Danish jobs are moving to low-cost countries is therefore not only present among unskilled workers in traditional manufacturing industries, but also among highly educated staff in the service sector. If the general public debate were to be believed, you might get the impression that in future there will be no unskilled jobs left in Denmark at all, and that a good deal of the back-office functions in the service sector are about to move to South East Asia and Central/Eastern European countries as well. This media-hype is not backed by available empirical data (cf. Pedersen 2004; DØR 2004).

#### *Globalisation and perceived job insecurity*

The media-hype nonetheless has an effect on the employees' sense of job security and thus on their mobility patterns. As mentioned, it is a condition for the employees' willingness to change jobs or job functions that they feel secure, either at their present workplace or of their place on the labour market in general. All the media hype about globalisation and outsourcing has probably had a negative psychological effect on the mobility of the labour force. As already stated, the Danish

labour market legislation and the collective agreements offer workers little employment protection. Nonetheless, previous surveys of Danish employees show that they feel secure in their present job (OECD 1997; Auer 2000; Auer & Casez 2003). It is this sense of job security and employment security that may now be challenged by the threat of outsourcing jobs. It could also be that e.g. employers have a strategic interest in inflating the ideas of the scale and nature of globalisation, as this rhetoric can help “soften” the trade unions and the employees and make them more accommodating of “atypical” forms of employment or lower wage demands. Skaksen (2004) maintains that the possibility of outsourcing in itself can have a disciplining effect in connection with collective bargaining, because wage restraint becomes an alternative to outsourcing of production.

*To what extent does globalisation affect jobs?*

The question still remains, however, if there is empirical support for the expectations of massive outsourcing of jobs, and to what extent globalisation will in reality affect the flexibility of the labour market.

The Danish National Institute of Social Research finds, on the basis of a study of sectors of industry particularly exposed to competition in the period 1997-2000, that competition from low-wage countries seems to have had few serious negative consequences for Danish workers. The analysis shows that employees in the parts of industry in question have not had any greater risk of being made redundant due to enterprises closing down or down-sizing than employees in parts of industry not as exposed to competition. Furthermore, the people made redundant in competitive sectors find new jobs at the same rate as workers from non-competitive sectors, and their wage development is largely similar. The exception seems to be employees in the automotive industry and textile and clothing, which have been more severely affected. The study also shows that unskilled workers are hit a little more frequently than others by competition from low-wage countries, which may be explained by the fact that they were more likely to work in the most exposed sectors in the first place (Geerdsen et al. 2004). However, it is worth noting that at the time the study ended, 2001, unemployment was at an all-time low and there were beginning labour shortages in parts of the economy, which in all likelihood is a contributory factor explaining that redundant unskilled workers from the exposed sectors of industry were able to be absorbed by other sectors short of manpower.

Outsourcing of jobs is part of the international division of labour, which makes it possible to allocate resources more efficiently. Outsourcing thus contributes towards the ordinary dynamic development of the labour market, in which jobs disappear and new ones are created all the time. Outsourcing can also be a way for enterprises to survive and improve their competitiveness in times of fierce international competition. The Danish Economic Council (DØR) estimates, after reviewing a number of Danish studies on outsourcing of jobs, that around 5,000 jobs disappear every year from Denmark as a direct consequence of outsourcing (DØR 2004: 132). As approx 260,000 jobs disappear or are created every year, outsourcing seems to account for a rather modest share of the dynamics of the labour market. It must, however, be borne in mind that the definition of the term outsourcing is far from unambiguous, and even if there were a hard-and-fast definition of it, it would still be difficult to provide accurate data for the level of outsourcing or how it has been developing (DØR 2004: 134).

After reviewing the available research on the level and character of outsourcing by Danish companies, Pedersen (2004, chapter 5) comes to a similar conclusion. Outsourcing still has relatively limited implications for the majority of Danish companies. The outsourcing which actually takes place is the more classical offshoring of production to China and Eastern Europe, which is based on cost reduction, while offshoring of business services is still on a relatively limited level.

If we look at specific groups on the labour market, it is a common assumption that outsourcing negatively affects the demand for un- or low-skilled labour and benefits highly educated groups of employees. DØR (2004: 143ff) examines whether shifts in demand for labour at industry level towards highly educated labour is a result of an increased scale of outsourcing, but finds no significant correlation. A more likely explanation is probably the introduction of new technology which makes unskilled labour superfluous (DØR 2004: 151). When breaking down the analysis on individuals, it turns out that more outsourcing in a line of business leads to lower wages for the individual and more redundancies, even though, as mentioned, the total level as a direct consequence of outsourcing in a line of business is limited.

The research-based knowledge available – sparse as it still is – on the scope and nature of outsourcing and off-shoring of jobs thus calls for a more sober-minded assessment of the problem.

A number of factors seem to indicate that the particular Danish combination of high numerical flexibility, high social security and employment security means that both enterprises and workers are well prepared to take up the challenge and meet the needs for change and adaptability constantly demanded by new technology and intensified national and global competition.

### *Mobility and social exclusion*

The large number of job changes on the labour market means that the workforce is continually tested for their productivity and work potential. This constant selection process leads to some groups of employees being gradually excluded from the labour market if they cannot live up to the expectations of the employers. A large group of workers are thus more or less permanently balancing on the edge of the labour market or outside it. From 1960 to the mid-1990s, the number of people on transfer income grew from around 200,000 to 900,000 full-time persons, equivalent to a quarter of the adult population. The price for a highly efficient and mobile labour market with an extensive safety net therefore seems to be that a large part of the potentially active population of working age is gradually excluded from the labour market and become welfare recipients. It must be said, though, that the number of people on transfer income fell to approx. 800,000 by the end of 2002. Since the early 1960s the employment rate has been stable at about 75%. The growth in the number of people on transfer income thus coincides with a marked decrease in the number of persons (especially married women) who are provided for by their family (Madsen 2003).

In contrast to this, the mix of the group of people on transfer income has changed considerably. Immigrants from third-world countries make up a growing share of cash benefit recipients; they have considerably lower employment and participation rates than ethnic Danes, and this constitutes a major and so far unresolved integration and labour market problem (Indenrigsministeriet 2001; DA 2001; AMID 2002). The number of long-term cash benefit recipients also remained more or less unchanged during the 1990s' "jobs miracle". The number of long-term sickness benefit cases

also show a marked increase in recent years, which may of course have any number of causes, including the ever-faster pace and productivity race in the labour market. As can be seen, there are still unsolved marginalisation and social exclusion problem on the Danish labour market – although in a comparative perspective, they seem less severe than in other European countries (cf. Bredgaard 2004a, 2004b).

The financing of the welfare state and the generosity of the unemployment benefit system are also being challenged by the changing demographics of the labour force. It is a well-known fact that in future there will be relatively fewer people of working age, which cannot but lead to a reduced supply of labour. Because of the increasing average life expectancy and shorter working hours, the Government's Welfare Commission claims that over a lifetime, every Dane will receive more benefits and services from the public sector than he or she contributes in taxes. On top of that, the growth in public expenditure is also under pressure from new welfare offers and rising expectations (Velfærdskommissionen 2004a, 2004b). According to the Welfare Commission, more means-testing, targeting the most disadvantaged, is thus inevitable, which means a breakaway from the universal and tax-financed welfare model (for a critical comment on this, see Goul Andersen 2004a, 2004b; Jensen 2004; CASA 2004).

### *The need for constant skills upgrading*

Irrespective of the scope and nature of outsourcing of jobs, the financial problems of the welfare state and the labour supply problems, there is still a need to set up mechanisms to secure the inclusion of various sub-groups (such as immigrants/refugees, older or unskilled workers etc.) rather than exclude them from the golden triangle. In this context, general labour market political measures to further employment for disadvantaged groups on the labour market will continue to be highly relevant, cf. section 4.3 below.

In this connection, upgrading the skills and qualifications of the workforce is crucial. There seems to be widespread agreement among both the political parties and the parties of the labour market that the solution to the challenges of globalisation is not to increase employment protection or to introduce restrictions on the free movement of goods, services and labour. Denmark cannot and should not compete on the price of products or labour, but on the quality. This means that education will be the resounding answer to the challenge, which means a strengthening of both ordinary education, and adult vocational training (cf. e.g. the recommendations in DØR, 2004, section II.7). As mentioned in section 2, due to the high numerical flexibility and the Danish industry structure dominated by many small and medium-sized enterprises, firms tend to under-invest in the general skills and qualifications of their staff, which stresses the importance of a comprehensive and well-functioning public system for basic education and life-long-learning.

## **4.2. Challenges to income security**

The high rate of income compensation in case of unemployment (up to 90% for certain low-income groups) increases the risk of economic disincentives, especially for low-income groups. Even though these problems with incentives seem plausible, both theoretically and intuitively, they are nevertheless difficult to prove empirically, at least on a larger scale (cf. Goul Andersen et al. 2003). One reason could be that potential disincentive problems, in particular in connection with the labour market policy, have been sought remedied in the form of tighter availability and mobility demands,

early and intensive activation and the “right and duty” to activation – rather than reductions in the level of benefits (Torfing 2004; Jørgensen & Larsen 2003; Jørgensen 2002).

As the rest of the EU, Denmark was hit by recession and falling employment at the end of 2002, and unemployment went up by over 30,000, lasting until the end of 2004 (cf. Statistics Denmark Feb. 2005). Needless to say, falling employment and rising unemployment put the Danish flexicurity model, which already had the highest costs in the EU for (active and passive) labour market policy, under financial pressure. However, it is still too early to assess the resilience of the Danish flexicurity model if faced with a long-term economic crisis (Madsen 2003).

The labour market reform “More people into employment” (*Flere i Arbejde*) from 2002 challenged the generosity of the cash benefit system in two areas. First, the start help and introductory benefit introduced lower benefits for some sub-groups (refugees and just-arrived immigrants), which meant a 30 to 50% reduction in income compared to cash benefit. The reasoning behind these changes was “make work pay”. The analyses available, however, seem to indicate that these measures have only led to employment for a limited number of the target groups (CASA 2003, 2004). Second, a ceiling was introduced on cash and other benefits for married couples on cash benefit, which was also supposed to remedy financial disincentives. Based on the same reasoning, a tax relief for wage earners was introduced in the tax reform, to take effect from 2004, to increase the difference in income when passing from transfer income to paid employment.

At the same time the aborted attempt to reduce unemployment benefit for some of the core groups on the labour market in September 2003 illustrates that there are still considerable political barriers to more comprehensive cuts, when it comes to the basic elements of the unemployment system. The statements made in the wake of this retreat may demonstrate that the government no longer has the will to take on the generous benefits system, and possibly that they have realised the beneficial effects for the economy in general of the Danish flexicurity model.

### **4.3. Challenges to the active labour market policy**

The shift in labour market policy away from income provision to an activation concept, which gained momentum over the 1990s, has supported the fundamental combination of a flexible labour market and a comprehensive social security system. This activation of the labour market policy is anchored in an important social compromise between the labour market organisations and the political system. Rather than opting for the Anglo-American inspired “workfare strategy”, an activation strategy based on “human capital” was chosen in Denmark (Torfing 2004).

The 1994 labour market reform did not lead to any cuts in the social security benefits or fundamental changes to the structure of financing the unemployment benefit system, but it did lead to re-calibration of the labour market policy as to the weighting of social disciplining (the stick) and social integration (the carrot) (cf. Larsen et al. 2001; Torfing 2004). On the one hand, the eligibility period for unemployment benefit was reduced, availability and mobility rules and sanctions were tightened, the right to re-qualification for eligibility was abolished and the duty of activation reinforced. On the other hand, there was a massive focus on initiatives for adult vocational training and skills upgrading of the unemployed, individual action plans and activation courses were introduced much earlier and much more intensively during unemployment spells (Larsen et al. 2001; Jørgensen & Larsen 2003; Bredgaard et al. 2002). Regarding organisation and steering, the labour market policy was regionalised and the position of the labour market organisations in policy

implementation was markedly strengthened (Jørgensen et al. 1999). Early evaluations of the activation measures were largely positive and seemed to show improved efficiency in the supply of labour, increased mobility and positive employment results following both education and training and public job placement (cf. Larsen & Langager 1998).

Later adjustments of the labour market policy have gradually moved the policy in the direction of more disciplining (work first): the eligibility period for unemployment benefit has been further reduced, sanctions, availability and mobility rules tightened, and the skills upgrading elements reduced. At the same time there has been a gradual roll-back of the responsibilities of the regions and the labour market organisations (Jørgensen et al. 1999). When the labour market policy is recalibrated towards more social disciplining, it implies seeking to increase the motivational effect rather than the qualification effect, which may be linked to impact measurements of the activation measures, which have shown, among other things, that education can in fact have a negative effect on the subsequent rate of financial self-sufficiency, and that on the whole only private job training can demonstrate any positive effects (Arbejdsministeriet 2000; DØR 2002; Geerdsen 2003).

Together with new evaluations, this provides the basis for increasing focus on the importance of the effects of motivation and threats in labour market policy (Rosholm & Svarer, 2004). Typically, the impact evaluations made so far have focused on short-term effects of specific measures, whereas there is much less knowledge about the longer-term impact of combined measures, e.g. initiatives involving education and training followed by work experience or subsidised placement.

Giving lower priority to the training and education aspects of the active labour market policy may, however, have consequences for the flexibility on the labour market, especially in a situation where the individual's reasons for unemployment are more related to the *ability* (lack of qualifications or work experience etc) than to the *willingness to work* (financial incentives) (cf. Goul Andersen et al. 2003; Jørgensen & Larsen 2003). And likewise in situations where unemployment is caused by lack of *demand* for rather than lack of *supply* of labour. A growing mismatch between the labour market policy's "medicine" and the patient's "illness" can thus emerge, which will diminish the possibilities of (re)integrating the marginal groups of the labour market, to the detriment of the dynamics and flexibility on the labour market (Bredgaard 2005).

The 2002 labour market reform "More people into employment" is a continuation of this policy, but at the same time includes some fundamental changes of the traditional labour market policy. The skills upgrading aspects have been toned down, there is more focus on short-term job applications courses, job search training, and interviews rather than on long-term activation initiatives.<sup>4</sup> Investing in human capital is vital, both to improve the long-term employment prospects and employment security of the individual, and also to enhance the competitiveness and adaptability of the labour market (cf. OECD 2004). As already mentioned, employers in Denmark tend to under-invest in adult vocational training, and together with the lower priority given to the training and education elements of the labour market policy, this adds up to a worrying development, in the light of the challenges facing the Danish labour market.

Contracting out the Public Employment Service (PES) to so-called "other actors" has led to the lifting of a number of previous restrictions as to the duration of measures, the scope, target groups, average prices and types of activities allowed, which again has led to a number of fundamental

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<sup>4</sup> The so-called Spring Compromise of 2004 (*forårspakken*) did, however, include funds for upgrading the skills of unskilled workers.

problems in the management and implementation of the labour market policy (Bredgaard et al. 2005). It has turned out to be difficult to manage the labour market policy and regulate the labour market by means of service providers, financial incentives and freedom of methodology. On top of that, the idea that documented effects must always prevail has meant that the initiatives have become short-term and limited to activities that are immediately measurable under the terms of the contract. An essential challenge in future will be to set up mechanisms to establish partnerships and mutual trust in this “quasi-market” for employment services, and to secure that the “weakest” of the unemployed are not ‘creamed’ or ‘parked’ (cf. Bredgaard et al. 2005; Considine & Finn 2004).

The intention of shifting from a two-tier system to a one-tier employment system presents a number of both potential opportunities and risks in relation to labour market flexibility. For instance, there are obvious advantages in coordinating the state- and the local-authority-run labour market policy. However, localising the labour market policy runs counter to one of the previously fundamental principles of labour market policy: that employment services are managed on the basis of functional not geographical considerations (cf. Jørgensen et al. 1999). An important point of criticism from the labour market organisations has indeed been that a one-tier, municipalized employment system might hamper labour mobility across local authority boundaries.

In spite of these recent changes in labour market policy, one thing remains unchanged – the role of enterprises. Danish labour market policy is still very supply-oriented, that is, oriented towards activating the unemployed. It has no tradition for involving and no instruments established to activate enterprises, apart from a policy of corporate social responsibility, which is at the moment considerably less ambitious than it used to be. In order to get more people employed and to increase the supply of labour it is, nevertheless, an essential precondition that enterprises on the one hand retain employees in danger of social exclusion (e.g. older or disabled workers), and on the other hand integrate people who have already been excluded (cf. Bredgaard 2004a, 2004b).

As already hinted throughout this review of the challenges to the flexicurity triangle, the Danish flexicurity model is not an unchangeable or sacrosanct model construction. Changes are happening around all the corners of the triangle important to the flexibility, dynamics and adaptability of the labour market. It is important to bear in mind that there is a dynamic interaction between the flexible labour market, income security and the active labour market policy, and that changes in any of these elements will therefore have consequences for the others. Each of the elements are being challenged at the moment by trends such as globalisation, changes in the social security systems and changes to the labour market policy. The question then is whether any of these changes are of a scope and a nature which justifies talking about fundamental systemic changes, which will change the Danish flexicurity model for good, or whether what we are seeing are just minor alterations. It is probably still too early to tell.

What is important to point out in this context is the fact that the precondition for the resilience of the model is continuous support from the labour market organisations, and confidence in the ability of the model to secure a balancing of social and political compromises. The particular Danish variety of corporatism, in which the labour market organisations are involved in the drafting of legislation and decision-making processes, and share responsibility for implementation, is no doubt an important condition for the development and robustness of the flexicurity model (cf. Madsen 2004; Auer 2000; Wilthagen & Tros 2004). It is on these points that the model will be facing challenges in the coming years, as a consequence of the ongoing local government reform, which will, among other things, have an effect on the labour market organisations scope for influence on

the policy and in the longer term also on the design of the income provision system for the unemployed (e.g. as a result of a beginning blurring of boundaries between local authority economy and the unemployment benefit system).

## 5. Summary and perspectives

In recent years, Denmark has ranked high on international lists of countries' ability to achieve macroeconomic goals and labour market adaptability. And these two elements are increasingly seen as closely linked, in the sense that a well-functioning labour market is crucial for macroeconomic success in a world where a number of the traditional macroeconomic tools have become increasingly difficult to use. In Denmark they are tied in or hampered by Denmark's ever closer integration into the European and international economy. Interest rates and the exchange rate are classic examples of this.

The overall message of this review is that the positive international attention on Denmark in recent years is in fact justified. Measured on a number of different dimensions, the Danish labour market does indeed demonstrate a high degree of flexibility. Above all the extraordinary Danish combination of high mobility between jobs, low job security and high rates of unemployment benefit deserves attention, and makes it possible to interpret the Danish labour market model as a unique variety of "flexicurity". On top of this comes a highly developed active labour market policy – and in general a well-developed educational system, also for adult vocational training – which add an element of employability security by strengthening the labour market competences of both the unemployed and people in employment.

This extraordinary Danish model is not the result of a deliberate plan carried out over a short period in the 1990s. Essential parts of it date way back to the September Compromise in 1899 and to the welfare reforms of the 1960s. But there are also indications that the labour market reforms of the 1990s have contributed substantially to the present success story. However, these specific historical conditions are what makes it difficult to transfer Danish experiences directly to other contexts. An important message, though, is that imposing strong restrictions on the freedom of employers to hire and fire employees is not the only way to provide security for the individual in the labour market. Quite the contrary, it is possible to combine a dynamic labour market with a high degree of financial and social security.

### *The challenges facing the Danish model*

When all is said and done, the Danish "flexicurity" model is facing a number of challenges that can, to a greater or lesser extent, be illustrated by results from existing research.

To start with the challenge of globalisation, the analyses and research results available indicate that the mechanisms we are seeing are not essentially new, and that the Danish labour market has already proved capable of dealing with similar changes, e.g. the outsourcing of the textile industry. But it must be borne in mind that an absolute condition is that high priority is still given to upgrading the skills of both the unemployed and people in employment, to avoid that structural changes lead to structural unemployment, or to individuals experiencing a growing sense of insecurity relating to their own future on the labour market.

Also the relatively generous Danish income provision system for unemployed is under pressure, as can be seen from the ongoing debate about both the problems of incentives and the problems of financing the social benefits in future. Research results in this area are ambiguous, even though a

number of contributions indicate that negative incentives due to a high benefit level tend to be counterbalanced by social and cultural norms.

And lastly, both the content of the labour market policy and its organisation are the objects of extensive research – and at the same time undergoing considerable changes. There is a shift away from a human-capital approach based on educational orientation of activation towards a work-first approach focusing on early initiatives, such as guidance and contact sessions. There is also a good deal of focus on the impact of the measures attributable to the very threat of activation (often referred to as the motivational effect). A new trend is attempts to make more use of financial incentives, both in relation to individual sub-groups and via the design of the tax system (job allowance).

When it comes to the organisation of labour market measures, the most important change will, needless to say, be the considerable changes in the wake of the planned local government reform and the subsequent transfer of considerable parts of the responsibility for the labour market policy to the local authorities.

### *The need for additional research*

In the light of the often both ambiguous and conflicting research-based knowledge in the area, and the considerable changes happening at the moment, it is obvious – though not really very helpful – to point out the need for more research into practically each and every aspect of the Danish model mentioned so far in this review.

Based on the holistic and systemic perspective of the labour market apparent through the focus on “flexicurity” applied in this review, the most obvious specific topics to point out for intensified research must be the ones listed below.

Even though the threats of globalisation are often exaggerated, it seems almost banal to state that the Danish labour market is increasingly becoming an integrated part of the European and international economic and political system. *An important research theme is therefore the Danish flexicurity model’s chances of survival, and the needs for reform of it, in a more and more open economy.* The increasing openness first and foremost affects the nature and pace of the change processes in production and in the demand for labour, which continue to make demands on all dimensions of the labour market flexibility. But openness also leads to – slowly, admittedly – an increase in the mobility of labour across frontiers. How is the interaction between flexibility and income security to be handled in a labour market marked by growing international mobility?

A very useful element in such analyses of the Danish flexicurity model in an international perspective would be *comparative analyses* of how other European countries are affected by the same internationalisation processes, in order to find out whether there is a tendency towards convergence into one or more European models for regulating the interaction between flexibility and security. Such research would have obvious interfaces with ongoing international research projects on flexicurity (including the identification of flexicurity arrangements at different levels), and to projects on transitional labour markets and the development of a European welfare state

model.<sup>5</sup> Is a shift happening in the weighting of universal benefits vs. insurance benefits, or between individual employment protection and collective security arrangements? Can clear tendencies be identified in the mix of the various forms of flexibility – and do they differ across EU countries?

In such a comparative perspective, there would also be a need to compare the consequences of different combinations of flexibility and security for various sub-groups in the labour market. How does the Danish flexicuity model for instance affect the groups of people inside, outside and on the edges of the “golden” triangle?

Another research theme concerns *the trend towards the function of an active labour market policy as a creator of employment security for both unemployed and people in employment*. As mentioned before, the labour market policy is undergoing massive changes, both as to content and organisation. It would be useful to analyse the effects and processes following from the individual parts of these changes (e.g. analyses of individual tools of activation or reductions in benefits). But just as important would be to look at the overall interaction between labour market policy, social security schemes and the labour market. Do changes in the content profile of the labour market policy for instance affect this interaction, both in relation to income security or the various dimensions of flexibility on the labour market? Might for instance giving lower priority to labour-market-related educational measures lead to a reduction of numerical flexibility, because the workforce will have relatively fewer general qualifications? Will assigning the main responsibility for employment measures to the local authorities offer more, or fewer, possibilities of productive interaction between the active measures for the various target groups and the supply side of the labour market?

*Strengthening research into the functioning of the labour market based on a holistic approach, as implied in the flexicurity perspective, is therefore at the overall level a matter of raising the awareness that national labour markets and labour market policy must be seen as parts of total employment systems, which on top of that increasingly function in an international context.*

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<sup>5</sup> Cf. the flexicurity project at Tilburg University headed by Ton Witlhagen, the TLM.net project coordinated by SISMO ([www.siswo.uva.nl/tlm](http://www.siswo.uva.nl/tlm)) and the EU-CONSENT project, which has a sub-project headed by Per Kongshøj Madsen on *Labour Markets and Social Protection: The European Social Model* (<http://www.comos.org/EU-CONSENT/Index.htm>)



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