

## Term **Flexicurity in Denmark**

### Definition

The term Flexicurity<sup>1</sup> describes a labor market policy developed in Denmark that enhances national competitiveness. It does so by providing employers the flexibility to hire and fire and by providing stability and security to employees. The concept is based on the idea that guaranteeing labor market flexibility alone, without addressing a worker's sense of stability, cannot ensure [National Competitiveness](#).

### Context

The rapid changes of globalization and its effects on technology, markets, and goods are challenging Denmark and other countries which wish to maintain a high level of national competitiveness.<sup>2</sup>

Inflexible labor markets characterized by tenure and seniority limit national competitiveness. The difficulties of dismissing and recruiting workers impede businesses from adapting to changing market demands. Fixed term contracts also narrow workers' incentives to improve their human capital.

Therefore, a flexible labor market enhances competitiveness. However, it does not guarantee workers a stable income.

The strive towards competitiveness and the desire to preserve income stability for workers led to the rise of the Danish Flexicurity model – combining flexibility and security.<sup>3</sup> The model's success in Denmark<sup>4</sup> has led the member states in the EU to also adopt the policy.<sup>5</sup>

### Components

The Flexicurity model is based on the following components:

- **Flexible labor market** – The model stresses the importance of contractual arrangements that leave employers with flexibility to recruit and dismiss workers or to change the extent of their

<sup>1</sup> The Danish labor model combines Flexibility and Security. See: [T. Bredgaard, The Flexible Danish Labour Market – A Review, pg. 26, 2005.](#)

<sup>2</sup> As the Israeli economy has integrated into the global economy, the labor market has put a premium on high skilled workers while wages for low skilled workers have decreased. See : [The 2006 Annual Report, The Bank of Israel, Chapter 5, pg. 191.](#)

<sup>3</sup> Denmark leads in competitiveness indices. In the years 2006-7, Denmark was ranked third in the Global Competitive Index. See: [The World Economic Forum.](#)

<sup>4</sup> In the years 1993-2005, the rate of unemployment in Denmark plunged from 13% to 5%. In 2005, the employment rate was the highest in the EU, reaching 76%. See: [European Commission, Employment in Europe 2006, pg. 262](#)

<sup>5</sup> The EU has adopted the principles of the Flexicurity model as a strategic tool to enhance growth and employment, to reduce unemployment, and to encourage job creation. See: [European Commission, Towards Common Principles of Flexicurity, 2007, pg.3](#)



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working time. The workers enjoy labor market policies that enhance their ability to move between jobs.

- **Life long learning** – The Danish government adopted a strategy that promotes relevant training for its citizens, regardless of their age. This allows individuals to acquire knowledge and upgrade their skills to match the needs of the changing market. A special emphasis is given to <sup>6</sup> strengthening the capabilities of weak groups that have difficulty entering the market. One example is giving subsidies to employers that train low skilled workers.<sup>7</sup>
- **Encouraging labor among weak groups**
  - **Incentives for weak groups to participate in the labor force** – The Danish system includes a range of mechanisms that provide incentives to enhance the participation of weak groups in the labor market. For example, the government supports lone mothers<sup>8</sup> and operates a negative income tax that gives low wage workers an incentive to work.<sup>9</sup> The government provides social support that is conditioned on active search for work and professional training.<sup>10</sup>
  - **Incentives for employers to hire disadvantaged populations** – When employers have the flexibility to recruit and dismiss, they have little incentive to hire the elderly or untrained. Therefore, the state offers incentives to employers to recruit workers that are at the risk of being left out of the market.
- **A social welfare system** that encourages labor based on the following principles
  - **Generous unemployment benefits that are conditioned on active search for work or professional training** – In the past, a stable income was guaranteed either by being employed or drawing welfare. The Flexicurity model guarantees a stable income through generous unemployment benefits, but requires that the recipient actively search for work or participate in a professional training program;<sup>11</sup>
  - **Promoting secure transitions between jobs;**<sup>12</sup>

<sup>6</sup> For example, governmental grants are given to firms that operate programs for professional training for workers. See: [The Danish Government, Progress, Innovation and Cohesion – Strategy for Denmark in the Global Economy, 2006, pg. 18](#)

<sup>7</sup> See: [Ministry of Education, Denmark's Strategy for Life Long Learning, 2007, pg.34.](#)

<sup>8</sup> The Danish government is taking several steps to increase the participation of lone mothers in the labor market: childcare support, protection from dismissal during maternity leave. For further information, see: [Michael White, The Employment of Lone Mothers in Denmark and Great Britain, 2000](#)

<sup>9</sup> For example, see: [T. M. Andersen and M. Svarer, Flexicurity-Labour Market Performance in Denmark, 2007.](#)

<sup>10</sup> Pol Nyrup Rasmussen, the former Danish Prime Minister, argues that the Flexicurity model is based both on rights and duties. "People have the right to education and social protection and a duty to work and contribute to society." See: [2007 The Danish Model of "Flexicurity" P. N. Rasmussen.](#)

<sup>11</sup> See: [T. M. Andersen and M. Svarer, Flexicurity-Labour Market Performance in Denmark, 2007](#)

<sup>12</sup> The Danish government operates secure transition schemes agencies to reduce the risks and costs of job transitions. See: [European Commission, Towards Common Principles of Flexicurity, 2007, pg.26](#)

- **Relatively high standard of living for the disabled and elderly;**
- **Temporary support in the case of illness or accident;**

## Characteristics

- **Triangular agreement between the sectors** – The Flexicurity model in Denmark is based on a climate of trust and dialogue between the government, the unions and employers. The government offers the workers generous unemployment benefits and life long learning schemes provided the workers actively search for jobs and participate in professional training. In return, workers give their consent to more flexibility in contractual agreements. The employers allow the government to move towards a more competitive market, through the dismantling of monopolies and through facilitating competition;
- **A long and gradual process** – The Danish Flexicurity model is the result of a gradual evolution of labor policies and agreements;<sup>13</sup>
- **Flexicurity is associated with a low proportion of working poor;**<sup>14</sup>
- **High budgetary cost of implementing the Flexicurity model**<sup>15</sup>

## Evaluation

The EU proposes an index that evaluates different aspects of the Flexicurity model: the flexibility of contractual arrangements, the scope of life long learning schemes, the existence of policies to enhance recruitment and the strength of a modern social welfare system. In addition, the index includes variables that analyze the effects of these policies on the labor market.<sup>16</sup>

<sup>13</sup> The Danish labor market has always been characterized by high flexibility. Additionally, since the 1960's a social-democratic welfare state has existed. See: [T. Bredgaard, The Flexible Danish Labour Market – A Review, pg. 24, 2005.](#)

<sup>14</sup> The proportion of the working poor in Denmark is one of the lowest in Europe: See (In Hebrew): [Tzvi Zusman, Devaluation of wages; Israel 1989-2002, p. 3.](#)

<sup>15</sup> Denmark spent 4.4% of its GDP in 2004 on labor market policies, the highest in Europe. See: [European Commission, Employment in Europe 2006, pg. 14](#)

<sup>16</sup> For more information on the index, see: [European Commission, Towards Common Principles of Flexicurity, 2007, pg.39](#)



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