

## LIGHT AND SHADOWS OF THE DANISH MODEL

**Bruno Amoroso\***

The European Union and the International Labour Organization<sup>1</sup>, in their elaborations on strategies for employment, have indicated Denmark as a good example to follow, a "good practice" according to the current language of international organizations. In addition, there are the numerous studies on the argument, both by Scandinavian authors as well by other countries, that confirm this interest<sup>2</sup> and the impact that it is having also in the Italian debate where the problems at hand, as we shall shortly see, are justly considered crucial also for economic choices and Italian policies.

The reference to Denmark in the debate on *flexicurity*, namely on the way to combine the flexibility of the job market with the social security of employees, includes numerous other aspects, such as efficient macroeconomic organization, the capacity for economic innovation and institutional reform, the high levels of professional training, and lastly the tripart cooperation at all the levels able to create consent on not only the specific initiatives but also on the general objectives generated by the system and the policies to be followed. The topic is clearly complex, also for the necessarily limited nature of an introduction to an argument like this. For this reason, I have chosen to follow an expository form that recalls the problems and the existing connections between the problems raised, which provides the reference database for the discussion and research in progress, which sets the current situation in a historical framework of Denmark and the global economy in general and, lastly, recalls the critical unsolved points and on which there is also a strong debate in Denmark, albeit less known.

First of all, some theoretical premises that also serve to define the topics in question. Two main concepts recur in the debate: 1) the Danish model of *flexicurity*; 2) Scandinavian or Nordic systems of welfare. The Danish model of *flexicurity* is the attempt currently underway to reform, on the specific issue of the job market, the Scandinavian *welfare* system in Denmark which for more than a century, by adapting it to the systems of flexibility of work and production of the new forms of organization of production and competitiveness demanded by capitalist globalization.

Phases of innovation and reforms have already taken place in the past, but within the paradigm of *Scandinavian welfare* which ended up being reinforced. *Flexicurity*

instead, challenges the bases of this paradigm and questions the values and social practices that make its working possible. Therefore, Scandinavian *welfare* and flexicurity are two distinct realities that have come about along an interweaving path in the course of the last 15 years, and that on one side explain the success of flexicurity in this country, while on another provoke the inevitable rise of new contradictions with regard to the workings and objectives of the Scandinavian model.

In the Danish debate, the themes at issue do not concern the need for strong reforms of the social and economic system in the light of the new international framework, but rather the direction that these must take: namely, if the indications of *flexicurity* are to be followed, which further increase the factors of flexibility of the labour market through its growing decentralization and individualisation of contractual forms, accompanied by the elimination of the principle of social income of citizenship introduced in the '70s, or rather if the structures of *welfare* should not be reinforced along divergent lines. This latter option means stressing the greater capacity of the productive system to offer attractive job opportunities for workers (quality of work and full time occupation) and to exploit the new opportunities offered by technology to make work more adaptable to the needs of citizens, of families, etc).

The Commission for the reform of Danish *welfare*, instituted by the conservative-liberal government, emphasises the line of *flexicurity*, namely the need to bring back the forms of "social income" within the limits of compatibility to the needs of cost reduction and efficiency of the job market. The Alternative Commission for the reform of welfare, supported by unions and various grass roots organisations, believes it unsuitable given the recognized successes of the Danish social model, to propose a reform that throws its social component off balance in favour of asserted criteria of efficiency and budget balancing.

In conclusion, the problem at the centre of attention and controversy is not that of flexibility *tout court*, that has always been a characteristic of these systems of *welfare* and regarding which *flexicurity* brings little innovation, but the attempt of the latter to replace the centrality of the socio-economic system and its mechanisms of operating that are collectively negotiated with solidarity, with the centrality of the labour market and a system of individualised and competitive social relationships.

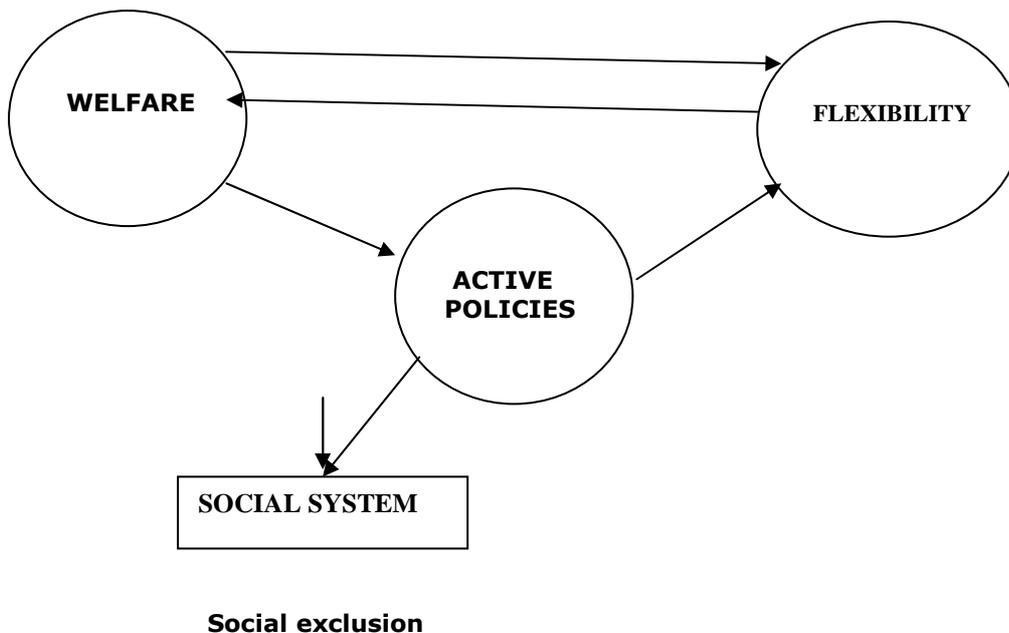
My paper is articulated on two points:

- 1) The Danish system of *flexicurity*.
- 2) The historical context of the economy and the Danish labour market and the Scandinavian model of welfare.

## 1. *The Danish system of the labour market and flexicurity*

The Danish model of the labour market has a hybrid form today since it is still strongly structured on the forms of Scandinavian *welfare*, but with reformulations and changes in the direction of *flexicurity*, namely a neoliberalist model of management of the economy and job market. The official government version defines the system of Danish *flexicurity* as a "golden triangle", whose main flows are articulated on three reference points:

- a) Flexibility of the labor market
- b) Welfare System
- c) Active policies of the labour market



Source: Ministry of Labour, Copenhagen (1999)

### FLEXIBILITY

In the chart flexibility refers to numerical flexibility, namely the number of dependents that change jobs every year, from one company to another, passing through a period of unemployment. Of a number of 100 people (for example) that lose their job and receive unemployment benefit for the equivalent period, 80 find work again in an autonomous fashion, while 20 will have to turn to the system of

active policies in order to receive support for their eventual reinsertion into work (retraining courses, job training, etc).

There is a high level of mobility from one job to another due to the poor protection of the workplace in Denmark. The arrows indicate the movements of workers in mobility and it is estimated that approximately (25%-35%) changes employer every year and approximately 1/3 – 1/4 of the workforce is struck by unemployment and receives unemployment benefit or support. From the point of view of flexibility, the Danish model is very close to the prevailing liberal systems in Canada, Ireland, Great Britain and United States.

Danish mobility is the highest in Europe, with an index equal to 138 with respect to 100 of the EU. Among the Nordic Countries, Denmark is in the last place for workplace protection and is fifth from last of OCSE countries followed by Canada, Ireland, Great Britain and United States. In addition to numerical flexibility due to strong job mobility, there are the high levels of flexibility in working hours (overtime, part-time, etc), at functional and organizational levels (both horizontal and vertical inner mobility in the workplace) and salaries. However, it should be noted that all these forms of flexibility do not occur in Denmark in a framework of neoliberal de-regulation like the one declared, among other things, by the OCSE in the mid '90s, but through political management and a detailed and concerted control by union and employers' organizations.

The prevalence of small and middle sized firms in Danish industry is one of the important reasons for strong mobility, but there is consensus on the fact that the absence of protective norms contributes in emphasising the phenomenon. *Flexicurity*, by driving towards increasing forms of decentralization and individualisation of job relationships, cuts in social spending and social contributions, and a weakening of trade-union representation, opens unknown scenarios in the system's workings.

The developments of the last years have engendered a marked thrust towards the weakening of centralized collective agreements and a strong increment in decentralisation for single companies. The practice of individual contracts for technical and administrative duties is also being extended. In the private sector, collective agreements centrally regulate no more than 15% of the content of wage contracting. From the start of the '90s until today, the percentage of collective agreements that do not mention wages have increased from roughly 4% to 20%. The overall result of this transformation is a tendency toward a general fall in the increase of average salaries. The practice of collective contracting has introduced a conflicting logic to the traditional one: the national contract promotes and recommends limits in wage increases; with respect to company contracts, the road to wages being adjusted according to the conditions of specific competition that the single company encounters in its own sector or on international markets is therefore opened up.

## WELFARE

The marked mobility considered in the previous point has not been the fruit of a superpower of entrepreneurs, but of an historical accord between capital and labour in Denmark, which gave rise to the Social Contract (1899) that sanctioned "the right of entrepreneurs to organize and direct production and labour" and entrusted to the workers movement, through its party (social democratic), the "management of the state". With a commitment to mutual loyalty, to which all conflicts, including bitter ones, have always led back to, that allowed governments after 1929 until the '80s to construct a model of social welfare and political democracy able to create social and political cohesion in the country alongside a dynamic and innovative economic system.

The point indicated in the chart by welfare, implies mixed measures of income support for unemployed workers. As such, it therefore does not entirely cover the function of welfare of the Scandinavian model that goes well beyond this. But more on this later. For now, it is interesting to emphasize that situations of unemployment caused by entrepreneurial choices believed to be legitimate, and considered a recurrent and natural phenomenon in the physiology of the Danish market system, must not produce negative effects on the conditions of workers' incomes and therefore on their personal and family standards of life.

The welfare indicated in the chart therefore makes reference to the right of workers to cover incomes in case of unemployment for which unemployment benefit insurance is foreseen, with government integration, and for uninsured workers, a public cover. The ethical foundation of this choice is obvious. The economic one is given by the recognition that greater freedom for initiatives granted to entrepreneurs is capable of creating more innovation, more enterprise risk, and therefore also greater economic results with which society as a whole can take the risk of unemployment for workers on board. An acquisition that efficiency and equality not only do not conflict but also create a virtuous circle.

In the Danish system, in spite of the notable restrictions introduced in the course of the last decade to reduce the component of protecting earnings and in favour of incentive mechanisms for work, the unemployment benefit cover is 70% for those with average earnings and 90% for low salaries. These are among the highest benefits of EU countries. Measures of income support are also envisaged for uninsured workers, corresponding to approximately 80% of unemployment benefit. The recent changes have not notably modified the levels of benefits, but increased the forms of control and incentive by reducing the maximum period of benefit entitlement to 4 years, and with more severe forms of conditioning for entitlement to contributions. Upper limits to the contributions have been introduced for immigrants (varying from 50% to 10% from the ordinary benefits depending on the country of origin) with short terms for reintegration (1 year).

From the viewpoint of Scandinavian welfare, therefore, flexicurity defines what already exists, namely an awareness that equality and efficiency go hand in hand. But the idea of *flexicurity* introduced in the '90s along the lines of neoliberal thought in order to redefine something that already existed, has another direction. It ruptures the "ideology" of the virtuous embrace between efficiency and equality, and affirms the principle of the need to make equality depend on efficiency. Thus a parity relationship is transformed into one of dependency. The welfare measures for the unemployed, conceived within the system of protecting citizens' earnings, the right to citizenship income asserted by the Danish social system reform in the '70s, are re-interpreted in a system of relationships functioning in terms of the requirements of firms.

However, it is not by chance that the concept of flexicurity was introduced for the first time in the Low Countries in the mid '90s in order to break a system of industrial relations thought too rigid and biased in favour of workers. Regardless of the reasons, or wrongs, to weaken the norms of job protection in that country, then put into effect, the matter was taken up again, generalizing its validity for all the countries, in an obsessive manner by the European Union in order to push the impossible objectives of the strategy of Lisbon in 2000 and its employment policy.<sup>3</sup> Finally, *flexicurity*, in this new version, has become the official line of the conservative-liberal government in Denmark, albeit in the presence of a totally different situation from that of other European countries.

The re-launch of the *welfare* system, now renamed *flexicurity*, takes two forms in Denmark. Above all, it exalts its value. In the words of the Prime Minister:

"Our system of job flexibility is of a high level with respect to international standards (....) Its flexibility derives from the fact that is easy to take on and dismiss employees. There is no kind of restriction. This is how we have decided to organize the Danish system of the job market. However, this is possible only because we have a high level of social security (.....) We have flexibility because we have a high level of social security."

These statements were made after the failed attempt of the government to reform the system of unemployment benefits in the autumn of 2003, and today are contrasted by the new campaign underway to harden and tighten up the rules of access to social and unemployment benefits and reduce social expenses and contributions for the unemployed. In the first case with a view to public spending, and, in the second in order to stimulate the unemployed to get back into the job market.

Successively, the extension of the right to welfare cover is narrowed by limiting it to vulnerable groups that are however subjected to restrictive criteria of control and insertion.<sup>4</sup> This is an approach that is inconsistent with the Danish system of welfare, which guarantees social benefits to all workers through citizens' incomes. In truth, it

means bringing back all the problems of income formation within an economic dimension aimed at increasing productivity.

## ACTIVE POLICIES

The objective of active policies in the job market is the help that the public sector must offer workers in difficulty to find a job for a rapid reintegration into the world of production. This help entails various programs (education and professional training) for professional retraining and also a motivational monitoring of the subject's willingness to get back to work. The assumption that is not the task of entrepreneurs to be concerned with training their own employees or their general conditions of *welfare* is implicit in this system. These aspects fall on the state and there is often an unloading of social costs from business costs to the fiscal system.

The successes of these policies, and the reason for their implementation, are more of an indirect than direct nature. In general, available research shows that education and professional training achieve poor results for reintegration purposes. More positive are the results of training carried out within firms and with a real insertion in the production process. The real effect of these measures is to drive workers to find work or renounce it, leaving the unemployment system altogether in order to enter the poorer system of social benefits.

This third pole of the Danish labour market system is of recent introduction since the right to citizens income did not bind the benefit to working performance, this being a personal choice of insertion into one or another context and not a condition for access to income. This "reform" is in line with the spirit of neo-liberal reforms of *workfare* (of which *flexicurity* is the heir), aligns the Danish model of *welfare* to measures of training and activation that are ever present in Swedish and Norwegian models, and is contradictory owing to the forms that the spirit of Scandinavian *welfare* assumes today, even if some authors have hoped to present it as a new important social compromise between unions and entrepreneurs<sup>5</sup>.

Indeed, the previous system of rights was replaced with the 1994 labour market reform, which has tightened up the system of the conditionality set up for access to unemployment benefits (and social in general), introducing the system of the "stick" and "carrot" for the purposes of being payable: the period in which one has the right to claim the envisaged benefits has been reduced, the rules of availability and access have been hardened, the right to retraining for eligibility abolished and the obligation to re-enter the workplace strengthened. Moreover, the system of monitoring and control of activities has been decentralized with a greater involvement of the organizations of the job market.<sup>6</sup>

The limited success of these initiatives has led to the introduction of more restrictive policy lines aimed at proclaiming the working condition as a condition of access to social rights: the period of access to benefits further shortened, sanctions foreseen, hardening the rules of availability and mobility, criteria of professional retraining reduced and the return to more centralised forms of managing these measures. Measures that clearly express the failure of policies previously put into effect. This led to the beginning of a campaign that transfers the causes of unemployment from the motive for training (previously supported) to that of the motivation to work. The hypothesis that the type and quality of work offered do not correspond to the aspirations of life or the real possibilities of particular groups of citizens to participate (women, immigrants, the young, the elderly) does not seem to deter experts and politicians. An issue that is instead sustained by critical authors.<sup>7</sup>

The positive results at the roots of the interest toward the Danish labour market model, with its recent supplements of *flexicurity*, are due to the positive trend of the main economic indicators, the high level of employment of the active population, and the low levels of unemployment. The foundations of the economy would therefore be in order and the result cannot fail to draw attention in these times. The aim of these notes is to draw attention to the social costs of this efficiency of the economic system, both for quality as well as dimension; if they are sustainable in a political and cultural context such as in Denmark, characterised by a high level of social discipline and cohesion due to the homogeneity of its population, it is not said that they may easily be reproduced elsewhere. This observation will be explored further also with regard to its economic and institutional aspects.

The entire active population in the Danish job market is constantly subjected to a process of appraisal and selection with respect to the objectives that from time to time the production system assigns. This, together with the increasing pace of work and innovation, has led to the exclusion of broad groups of workers by entrepreneurs from the production system, while other groups continuously fluctuate in conditions of uncertainty regarding their possible demotion or exclusion. From 1960 to the end of the '90s, the number of people depending on transfer payments has grown from approximately 200.000 to 900.000 (full time work) corresponding to a quarter of the adult population. Recent data analyze the problem in depth:

"There are today in Denmark more than 900,000 people of working age between the 18 and 66, without a job. Among these, there are 190,000 people who preferred to leave their job in advance (anticipated job resignation), 265,000 on anticipated pension because they left their job in advance from exhaustion, and other groups outside of the job market for personal choice, even if temporary. Among these, the largest group is the 25,000 parents on pregnancy leave or for other family reasons. The remaining 427,000 people live on public benefits because they are involuntarily unemployed."<sup>8</sup>

## ***2.The historical context of the Danish economy and labour market and the Scandinavian model of welfare.***

Analysis of the Scandinavian model and the Danish labour market model reflects the professional points of view of a number of authors who favour partial aspects, thereby concealing the ensemble and the system of interconnections that characterize them. Economists direct their attention to the job market (*flexicurity*), political experts focus on the institutional system and the functions of social mediation (*negotiated economy*), and sociologists on social policies (*social spending, social exclusion, etc*).

Understanding the Danish model of welfare requires the simultaneous analysis of these factors since it is the outcome of a process of historical fermentation begun in the communities and agricultural communes in the past centuries, continued then in its cooperative and solidarity forms with the birth of the workers movement in the last century until today. It has given rise to the construction of a unique system of cooperation and strong national and social identity, favoured by the size of the country and the ethnic-cultural homogeneity of the population.

The evolution of the Danish model of welfare today begins in the second half of the 19<sup>th</sup> century with the birth of the political organizations of the labour movement (Danish Social Democratic Party, 1871), of the Confederation of the unions of Danish workers (1898) almost at the same time as the constitution of the Association of Employers (1896). On the communitarian pragmatism of the origins, of strong national and religious leanings, there developed a new approach in the course of the past century that was to lead in the '20s to the reformist turning point.<sup>9</sup> What is interesting to remember here with reference to the objective of our presentation is that the institutions at the roots of the Danish model of the job market and which today are classified within the system of *flexicurity*, have older origins.

The functional division between production and administration, economy and politics, was sanctioned as noted above in 1899 with the Social Contract (*September Agreement*) undersigned between unions and employers. The reform of education systems and the introduction of firstly, social systems of security, and secondly, of social legislation had a long path of growth over more than a century: from "charity to solidarity", until the great reform of the Danish social system in the '70s that sanctioned the principle of guaranteeing income for all citizens, regardless of their placement with respect to the production system (citizenship income).

Insurance and assistance systems for the unemployed date back to 1907, active policies of the job market were introduced in 1979, etc. In the meantime, education systems and professional training, public health, social and cultural infrastructures, efficient and transparent fiscal systems, etc. were developed. The stages of economic

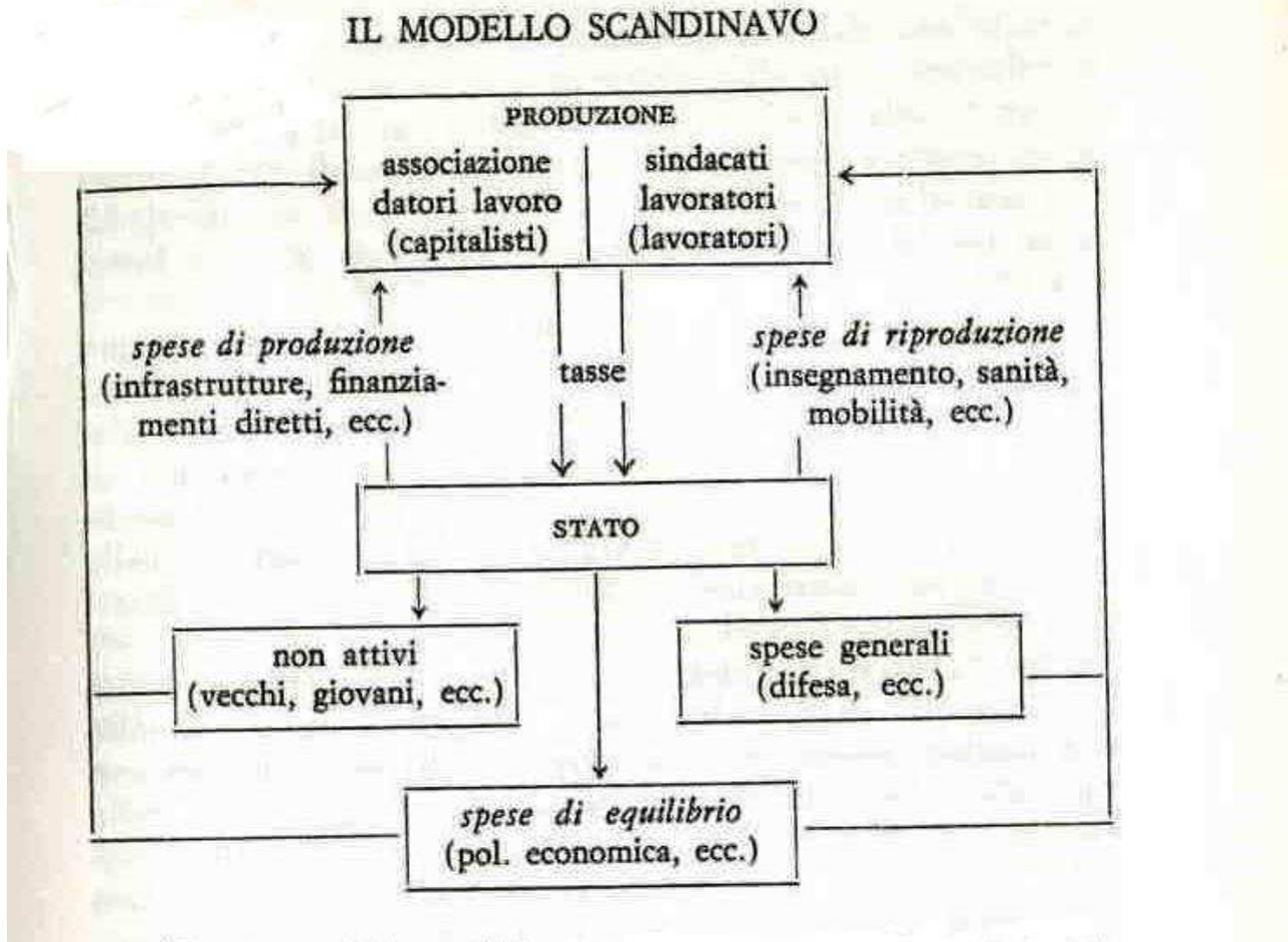
growth in Denmark have followed a similar course to those in Italy. Danish industrialization, begun in the past century, was achieved only in the '60s, but follows some distinctive lines with respect to the Italian system. It does not adopt the Fordist model but maintains the structure of highly specialised and innovative small businesses; it keeps the professional structure of union organization (corporative) with strong decentralization; finally, it maintains an organic relationship with the evolution of the country's agricultural systems.

The Danish model of the labour market is therefore a system integrated within a system of social relations whose components of *welfare* are represented by the ensemble of policies of work, education, health, social services, culture, infrastructures, etc. This ensemble of *welfare* structures is highly interwoven with the system of social spending (of the externalities), just as the system of the production is with the social system overall. In short, there is a kind of symbiosis, unlike the Italian and other European systems that has seen the organization of society and its institutions (also trade-union and representation) constructed around the centrality of the industrial system (the Fordist factory, with its towns, transport, etc), to the detriment of agriculture and its spaces (rural society), and leaving small firms to the residual and spontaneous element. For these reasons, the systems of social relations and labour market, which like *flexicurity*, presuppose the centrality of enterprise on the social system and replace social citizenship (the common good) with profit and productive efficiency, introduce even more foreign elements into these cultures.

The turning point, introducing conflicting elements into the Danish system of *welfare*, came in the '70s, when the problems that the capitalist globalization would bring were already becoming delineated. With great foresight of analysis at the time, it did not escape Scandinavian social democracies that globalization, with its finance and technologies, would have threatened the national systems of *welfare*, removing the possibility of national control on capital movements and investments. This led to the demand to complete the cycle of the growth of democracy – from the political democracy of 1800, to the social democracy of 1900, to the economic democracy of the new millennium.

This proposal tending to resume social control on the economy in the new forms of movements of capital, investments, international trade, etc. nonetheless objectively represented a revision of the Social Contract (real Constitution Charter of the Danish labour market) that attributed the management of the economy to entrepreneurs and the administrative and political management of the state to the workers movement. From the clash that followed and the defeat of the labour movement, from the '80s on there was the birth of a bourgeois political hegemony and the rightwing with claims to direct both the government of the economy as well as the state.

## THE FUNCTIONAL SCHEME OF THE DANISH MODEL OF WELFARE



Amoroso B. Rapporto dalla Scandinavia, Laterza, Roma-Bari 1980, p. 35

The clash underway today is therefore the expression both of traditional class conflict as well as political conflict. For this reason, from the '70s there was the start of an involitional cycle of the Danish system of *welfare*, represented by the progressive weakening of the system of social rights and the transformation of the system of social guarantees and institutions of *welfare* towards a greater centrality of the production system and, in the case of the job market, of *flexicurity* as a new system of equilibrium between efficiency and equity. Therefore, the current situation reflects both all the positive factors in terms of efficiency that the Danish model of *welfare* has constructed in the course of its history, as well as the negative social consequences that a change of system produces on the national and solidarity structure of the country.

*\*Bruno Amoroso Dr. Oeconomy. Jean Monnet Chair, Docent Emeritus Department of Society and Globalization, Roskilde University-Denmark*

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## NOTES

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