What happened to the Danish job miracle?

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Agenda

- Denmark: welfare system and “flexicurity”
- ALMP 1994-2003
- Employment policy 2004-2015
- Employment policy 2015 –
- Conclusions
Denmark – still a role model?

- Flexicurity: Denmark became a role model during the 2000’s ("ALMP" and "a job miracle")

- Flexicurity part of the European Employment Strategy in 2007

- Flexicurity – orally - also part of Europe 2020 – but fiscal austerity policies dominate

- Denmark introduced active labour market policy already (ALMP) in 1993/1994

- Is ALMP still working?
The Scandinavian countries

- Highly developed capitalist countries
- Highly developed, universal welfare states with generous services and transfers
- High tax rates and progressive tax systems
- Extensive public employment (with many women working in the social-services sector)
- Expenditures on public services for families twice as high as the European average
The Danish labour market system

- Voluntaristic bargaining system
  (collective agreements since 1899)

- A political interventionist strategy
  - densely organised labour market
  - negotiated regulation of labour market relations (cooperative adaptation)
  - ALMP - especially since 1994
  - generous unemployment benefit system (socializes costs of flexibility)
LMP

combatting quantitative, qualitative and geographical imbalances

"bottlenecks"  

Demand  

Supply  

"marginalization"
The renewal of Danish LMP 1994

Content
- From rules to needs-oriented activation
- Concept of goal-steering

Steering
- Strengthening of the role of the social partners
- Regionalization of policy-making and implementation
Activation policy from 1994/1996:

+ Personal ‘action plan’

Activation measures

- education
- private job training
- public job training
- job rotation

Unemployment benefit period (7/4 years)
Unemployment 1990-2004

Source: Eurostat
Denmark after new policy-mix 1994-: the Phillips curve flattened out!

Source: ADAMs databank
Employment rate 2003 (percentage)

Source: OECD: Employment Outlook 2004
## "Flexicurity"

### Job protection

<table>
<thead>
<tr>
<th>Social protection</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>UK</td>
<td>Italy</td>
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<td></td>
<td>USA</td>
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<tr>
<td>High</td>
<td>Denmark</td>
<td>Germany France</td>
</tr>
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</table>
The Danish “flexicurity” system: not a model – relationships

The primary axe of the flexicurity system

Flexible labour market

- Strong rotation between jobs
- Low job security
- Quick structural adaptation

Social security

- Income security
- High perceived job security

ALMP and CVET

Employment security
Complementarities across the Danish flexicurity-system

Flexible labour market
(easy to hire and fire)

Generous unemployment compensation compensates for low job protection (income security instead of job security)

ALMP compensates for under-investment in continuing vocational education and training

FIRMS and EMPLOYEES

ALMP and mandatory activation reduces the risk of moral hazard that can occur due to generous unemployment compensation

ALMP focusing on retraining
Average tenure 2000

Source: Auer & Casez, 2003
Protection for people in ordinary employment 2003

Source: OECD: Employment Outlook 2004
Level of economic well-being perceived

Source: Gallie & Paugam (2000)
Unemployment insurance system (UI)

Net compensation ratio 2002

Source: OECD (2002)
Active labour market policy 2004

Source: OECD: Employment Outlook 2004
## Work motivation

Question: "I would be glad to work even if I did not have a need for the money"

<table>
<thead>
<tr>
<th>Country</th>
<th>Agree (totally or partly) %</th>
<th>Percentage Difference Index % ¹</th>
</tr>
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<tbody>
<tr>
<td>Sweden</td>
<td>75</td>
<td>64</td>
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<tr>
<td>Bulgaria</td>
<td>36</td>
<td>-7</td>
</tr>
</tbody>
</table>

¹) Difference between "agree" and "disagree"

Danish LMP reforms since 2003

- The content of LMP: a “work first” approach introduced
- Job plans (no longer personal action plans)
- Outsourcing: “other actors”/ creation of “quasi-markets”
- De-corporatization: the labour market organizations in advisory positions only (from 2007)
- Broader target groups: social assistance recipients and other “inactive” persons included in LMP
- Institutional hybridization: shared PES and municipal responsibilities 2007-2009
- Full municipalization from 1.8.2009
New structural reform 2007 - 2009

Towards one-tier system:

91 jobcentres created (now 94)

From 14 to 4 regions only:

shift from policy-making to monitoring agencies mostly

From corporatism to contractualization

reduced role of the labour market organizations
A new labour market steering system from 1.8.2009

- Municipalities have taken over all kind of responsibilities as to employment policy
- The state run PES dissolved
- Economic incentives to steer activities
- Strong focus on hard quantitative output measures and performance metrics (central monitoring) – implying tensions between the state and the municipalities
Danish LMP: From a beautiful swan to an ugly duckling

Content:
* From fighting unemployment towards increasing the supply of labour
  
  • Activation: “programmes that are truly cold, wet, hard, and have no skill-enhancing components” (Rosholm and Svarer, 2004, 35)

Processes:
• The labour market parties no longer in pivotal positions
  
  • Fragmented implementation field

Polity:
* Schizophrenic mixture of control and competition
Activation and unemployment 1981 to 2015

Work Oriented (Blue), Education Oriented (Red), Full Time Unemployed

- Virksomhedsrettet aktivering
- Uddannelsesaktivering
- Fuldtidsledige (sæsonkorrigeret)
2008: The financial crisis – strong impact in Denmark

Figure 1.8. Recent unemployment developments reflect diverse impacts of the recession on real GDP, employment and participation.

Changes between 2007 Q4 and 2009 Q4

Panel A. Percentage change in real GDP

% change in real GDP

Correlation: -0.48***
Changes in employment policy 2010 – UI system reformed

Changes in the unemployment benefit system and the security elements:

- Period of unemployment benefits from 4 to 2 years
- From 26 to **52 weeks** of ordinary work within the last 3 years in order to (re)gain unemployment benefits
- Special retirement scheme (“Efterløn”) strongly reduced 2011
New government 2011-2015 and new reform

- Social democratic lead government, but still tight fiscal policy and tax reductions

- Postphoned changes in the system of unemployment benefits for ½ year – but many people lost their benefits and more have followed

- Reform of employment policy 2015: called again for “an active labour market policy” with more use of education. Results still missing

- Stop for compulsory use of “other actors” (outsourcing)
Liberal government 2015-

- Small minority government, has made more small tripartite agreements (including CVET and integration of immigrants and refugees)

- Give priority to private wage subsidies and private traineeship in activation

- Municipalities will have no reimbursement from 2019 as to activation – only general grants

- More *creaming* and *more differences* as to the quality of local measures and arrangements to be expected
Employment rate 2017 (percentage)

Figure 2.2  Employment rates across EU countries (2008Q2, 2013Q2, 2017Q2)

Source: Eurostat [lfsq_ergaed].
Note: Data are for the 15-64 age group.
Unemployment rate 2017

Figure 2.7 Unemployment rate by country (2008Q2, 2013Q2, 2017Q2)

Source: Eurostat [fsq_urgan].
Note: Data are for the 15-74 age group.
Participation in CVET 2016

Figure 2.21 Rate of participation in education and training (EU28, EA19 and EU Member States) (2013 and 2016)

Source: Eurostat (trng_ifse 01).
Average tenure: high job mobility

[Bar chart showing average tenure, years, for various countries, compared between 2007 (blue) and 2012 (red). Notable points include Denmark and Ireland with high values in 2012, and Belgium and Greece with high values in 2007.]
Employment protection 2008 and 2013

Expenditures for LMP

Expenditures as percentage of GNP (2014)
DK: Dynamics within the system: Redundancies and labour turnover
DEVELOPMENT OF LMP IN DENMARK

OPM (Old Public Management)


Employment policy (2003-2014)

NPM

Employment policy (2015- )

Decentralized
Conclusion (I)

- **Danish flexicurity** has survived policy changes and the economic crisis 2008-2013: employment increases and unemployment at a low level

- The security elements of the system have been weakened, but dynamics and institutional complementarities are still functioning

- Danish ALMP operated on an **anti-cyclical basis from 1994**. Now improvement of employment is primarily **pro-cyclical**

- "**Employment policy**" is fragmenting: disciplining elements too strong - effective help to firms and unemployed in deficit

- **Municipalities** seem more interested in own economic situation than in well-functioning local labour markets
Conclusion (II)

- ALMP was a success from 1993/1994 to 2003: Activation also a kind of "learn-fare" (human capital approach) which produced "the security of the wings" for wage earners.

- "Employment policy" from 2003 absorbed too many social policy groups and problems in efforts to improve the supply of labour ("work-first approach"). Sanctions strongly used. Now lack of trust in the jobcentres.

- Disciplinary elements do not work very well for groups with other problems than lack of a job. Feeling of insecurity amongst marginalized groups.

- Employment policy without help and acceptance from the labour market organizations is no good.
Conclusion (III)

**ALMP:** a central component of the flexicurity system - promotes economic growth and welfare

"Train-first” more effective than “work-first” approaches; but it involves more **public investments** and **qualitatively good activation arrangements**

**Include the labour market organizations.** Cooperative adaptation an alternative to short-term contracts

‘**Flexicurity**’ still an alternative to deregulated Anglo-Saxon systems and to strict job protection in Southern European systems
“If you marry time, you will soon be left a widow”

(Søren Kierkegaard)