

What happened to the Danish job miracle?

Henning Jørgensen

Professor, CARMA, Aalborg University

Former Director ETUI, Brussels

**Arbeiterkammer Oberösterreich, Linz, Austria, 5th of June
2018**



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 'es ("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**

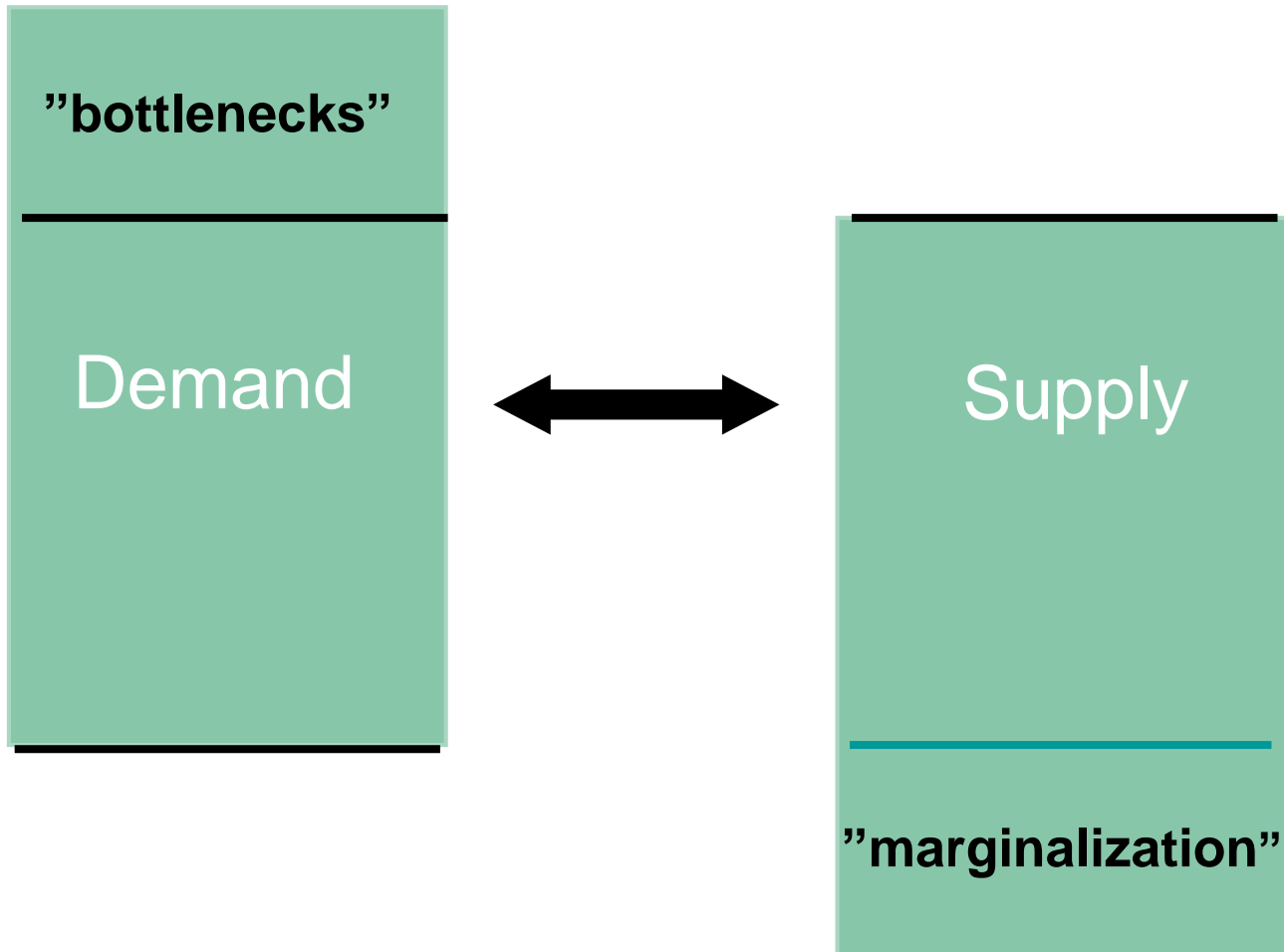
(collective agreements since 1899)

⇒ **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



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:

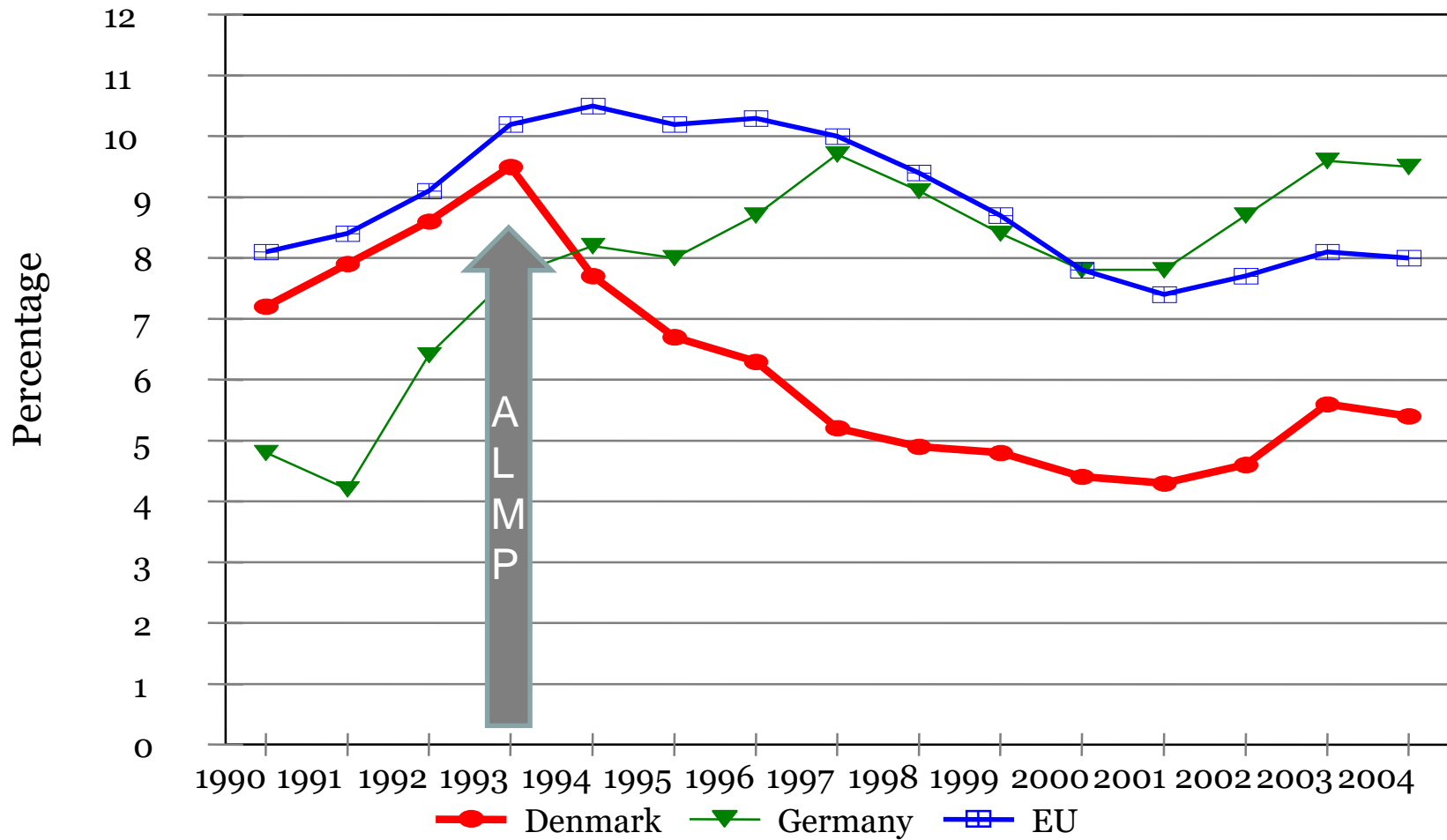
✓ + **Personal 'action plan'**

✓ **Activation measures**

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

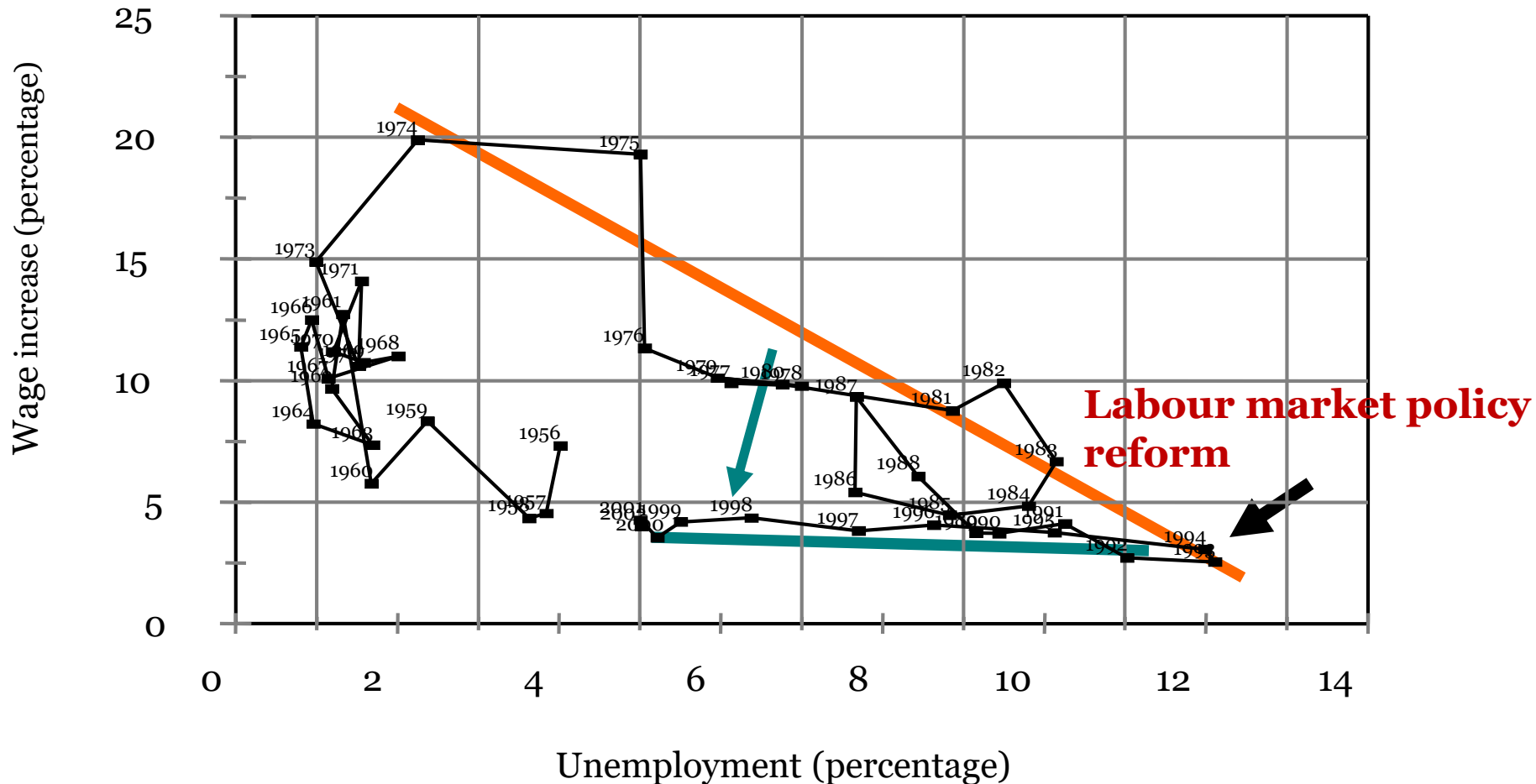
✓ **Unemployment benefit period (7/4 years)**

Unemployment 1990-2004

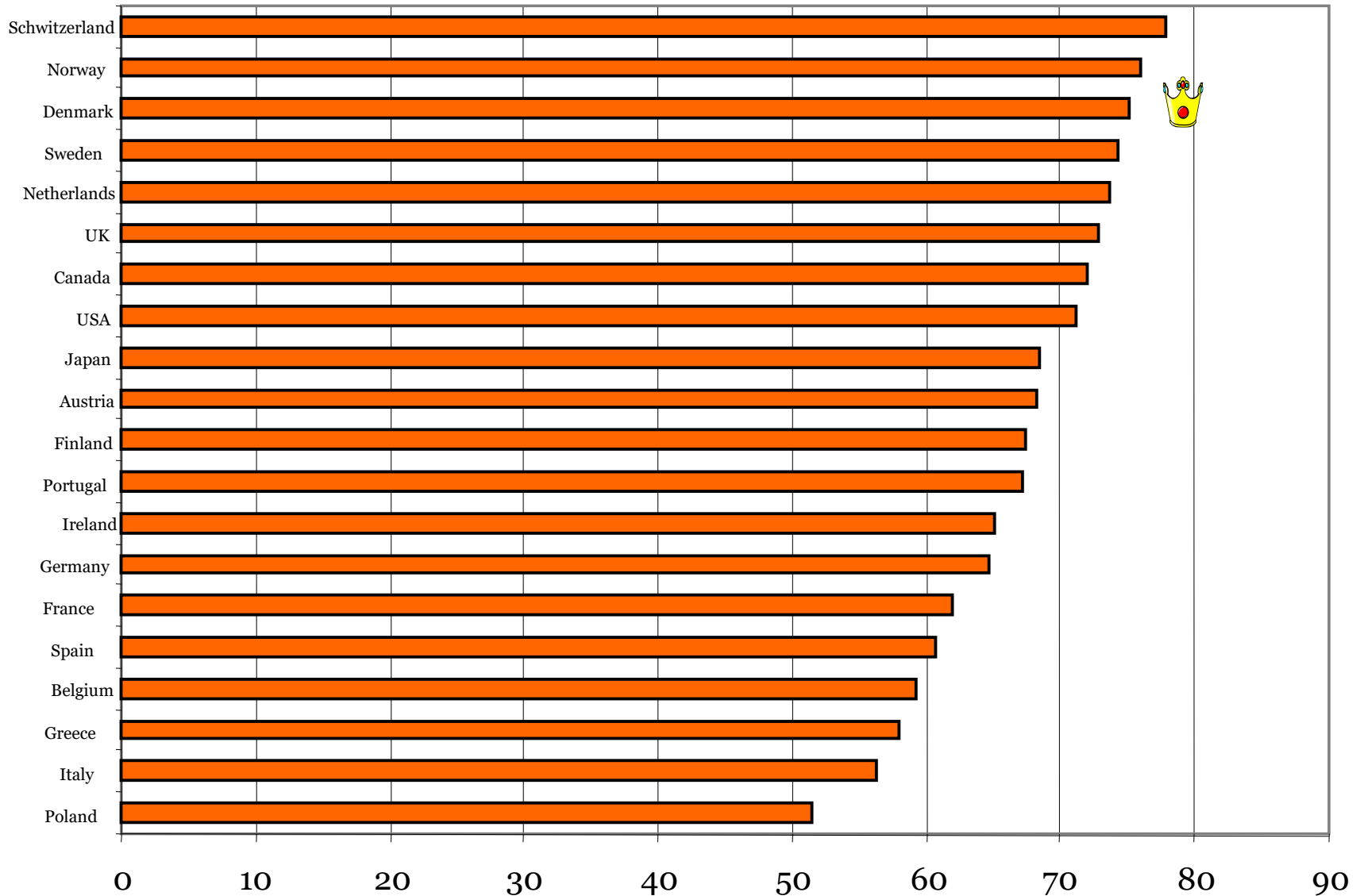


Source: Eurostat

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



Employment rate 2003 (percentage)



Source: OECD: Employment Outlook 2004

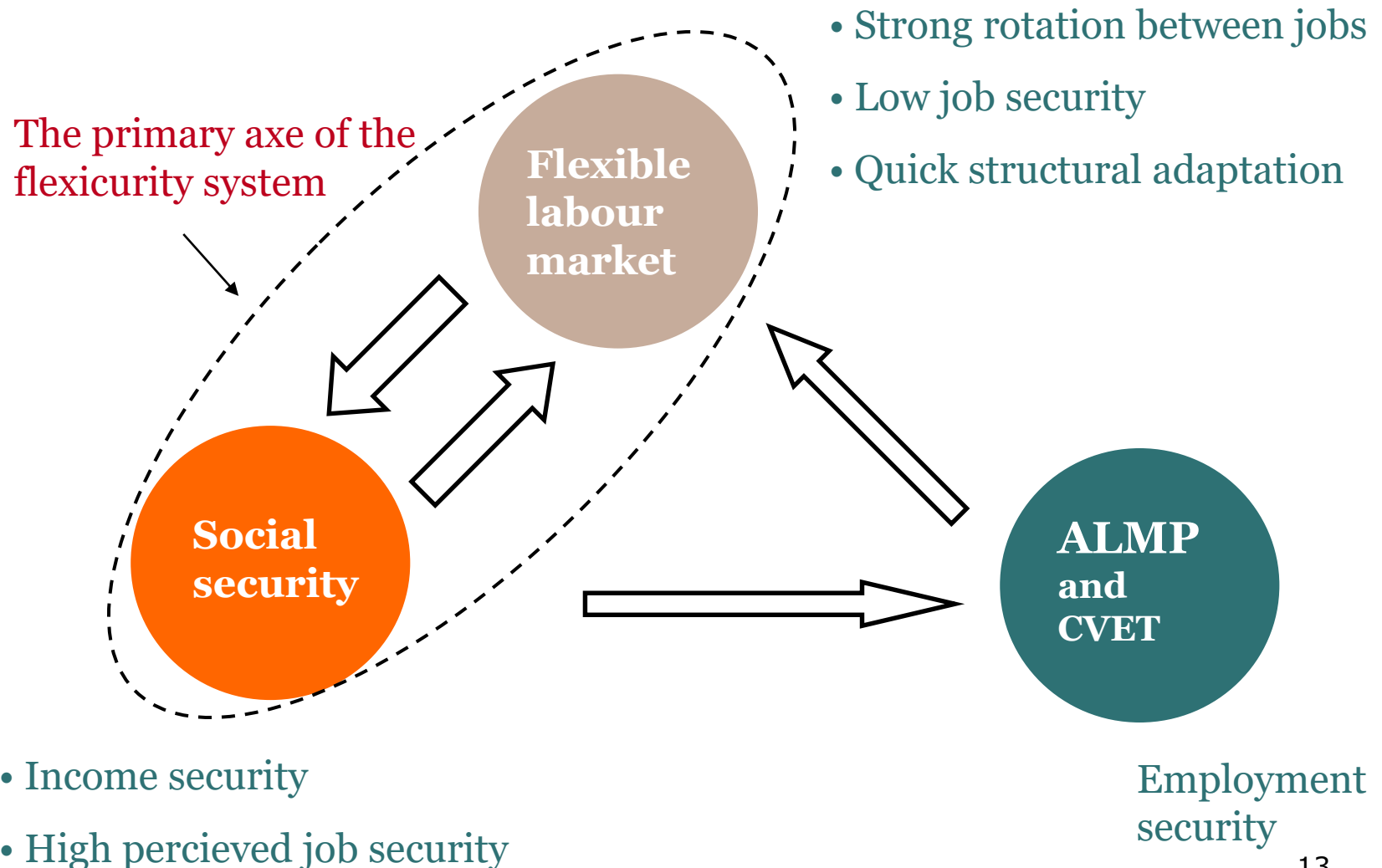
”Flexicurity”

Job protection

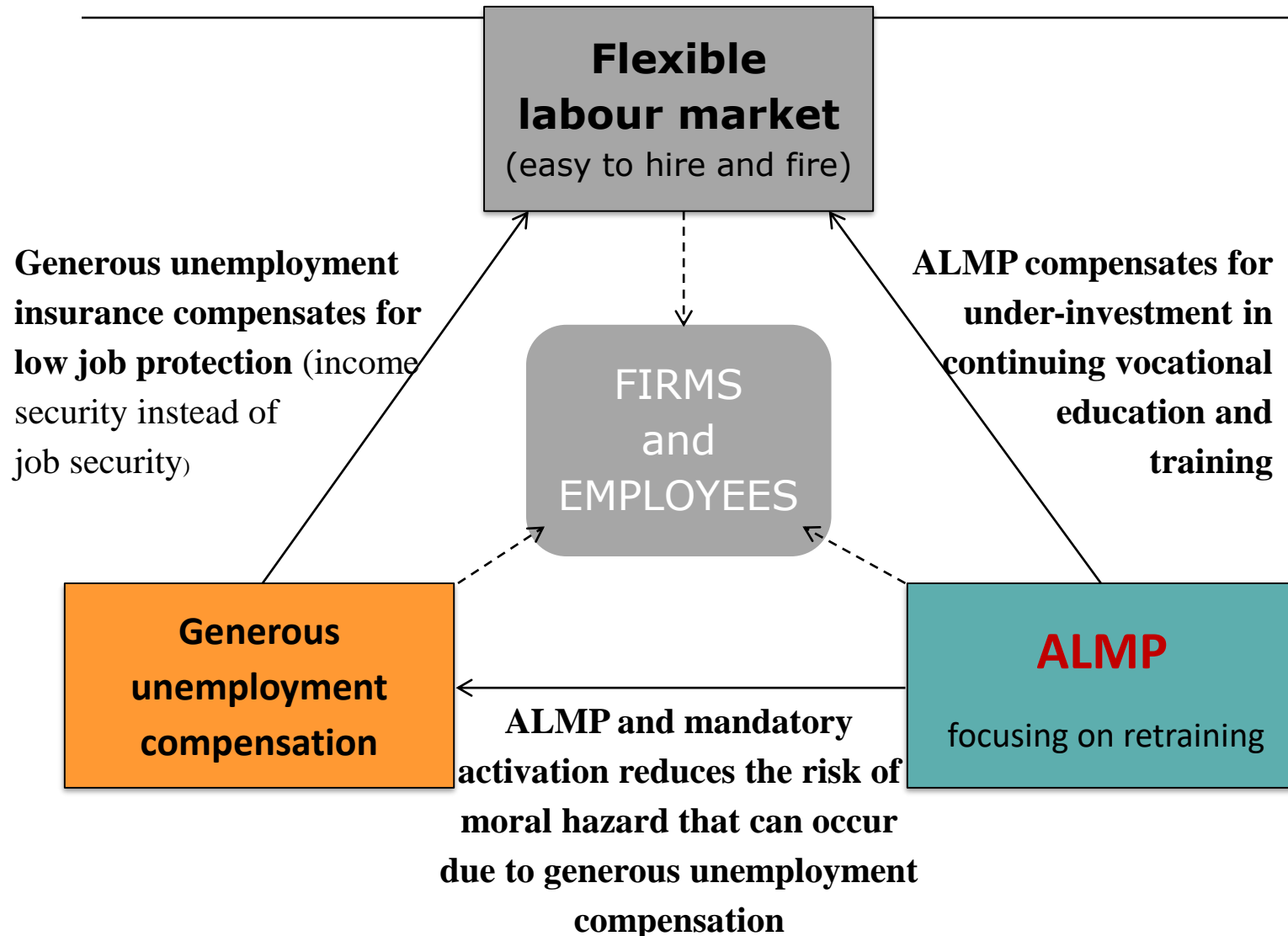
	Low	High
Low	UK USA	Italy
High	Denmark	Germany France

Social protection

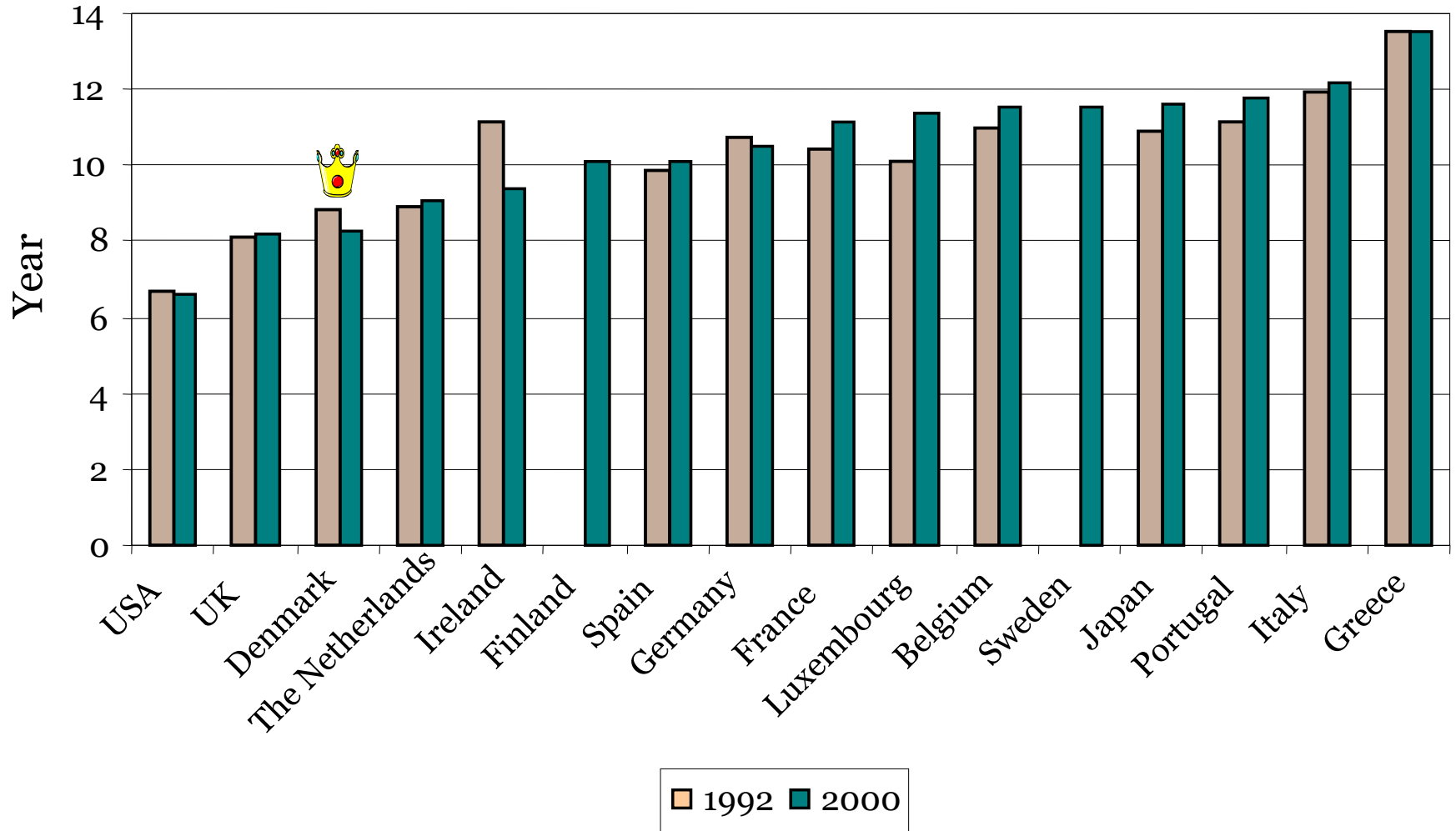
The Danish “**flexicurity**” system: not a model – relationships



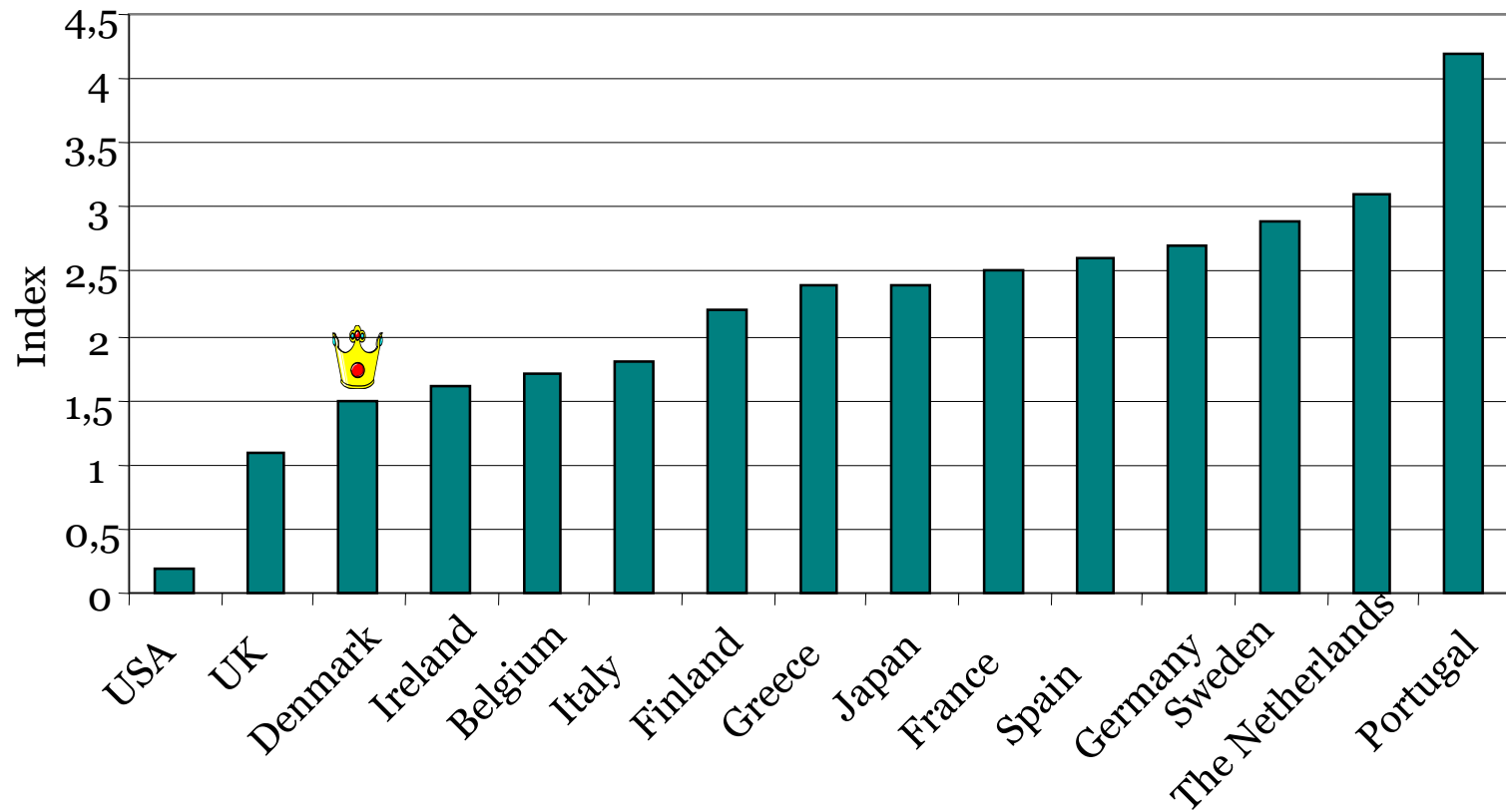
Complementarities across the Danish flexicurity-system



Average tenure 2000

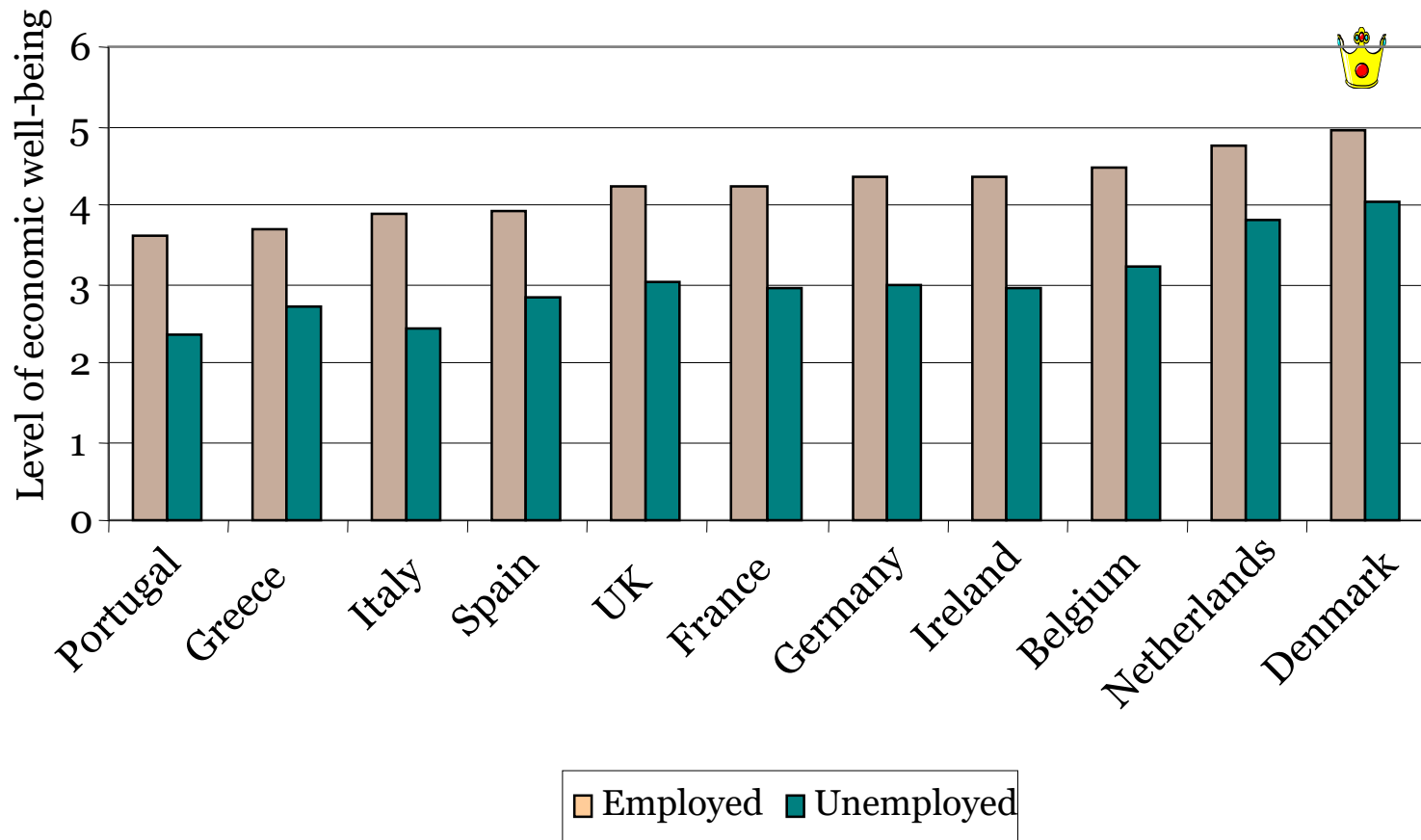


Protection for people in ordinary employment 2003



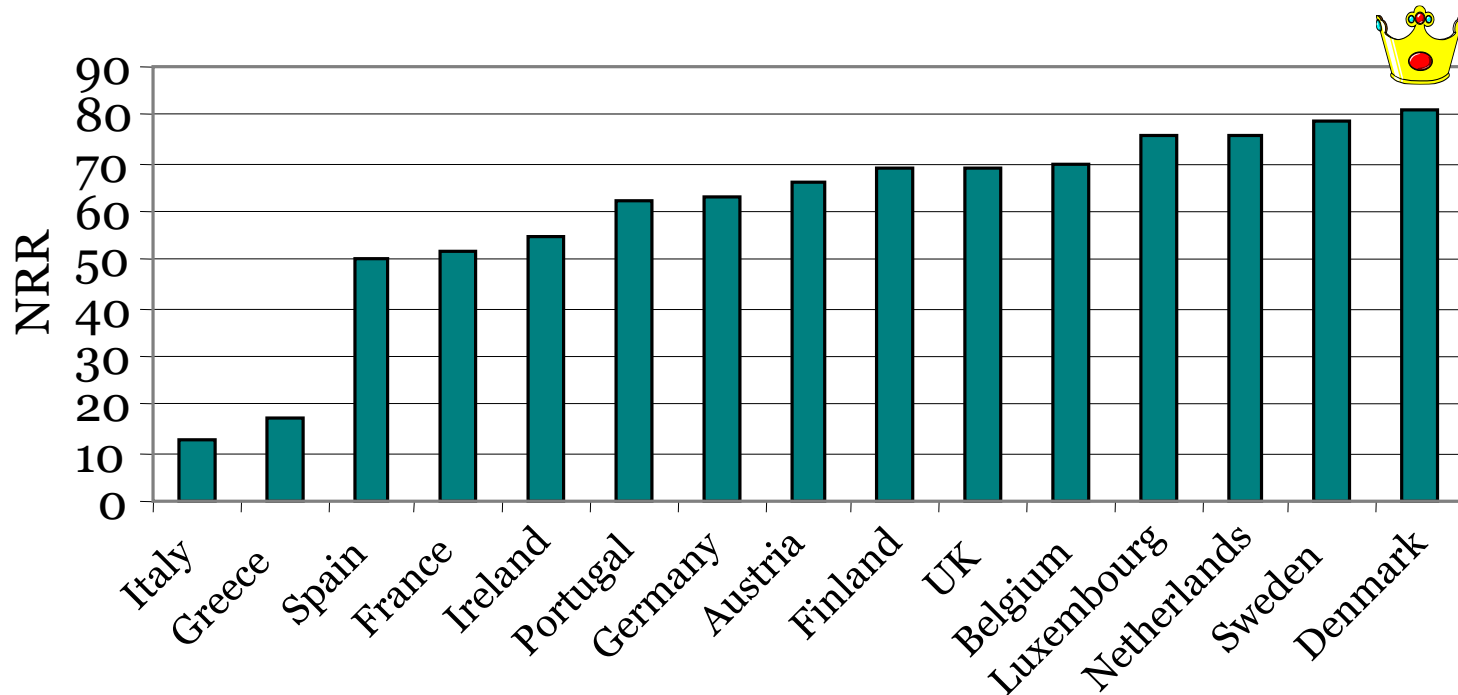
Source: OECD: Employment Outlook 2004

Level of economic well-being perceived



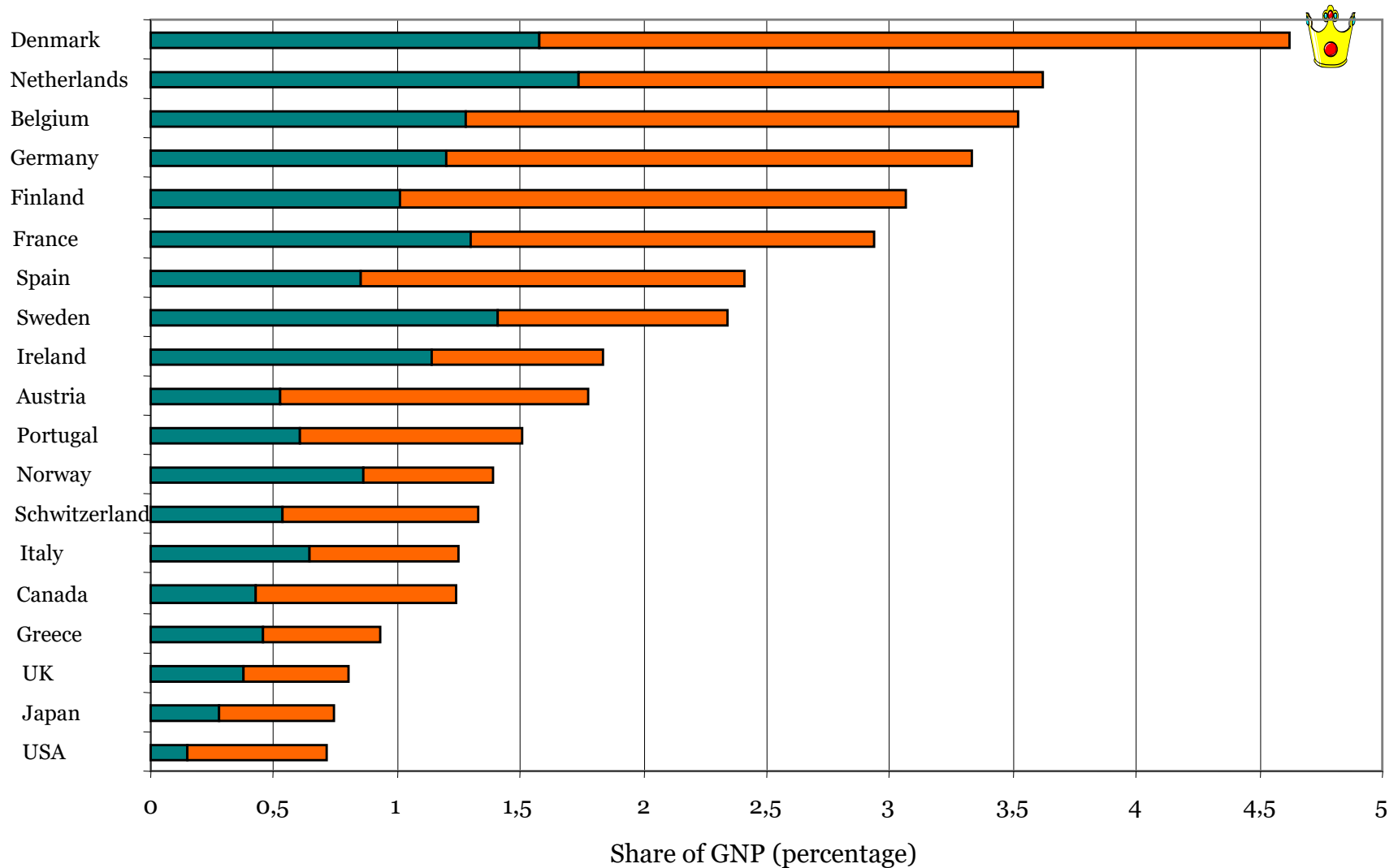
Unemployment insurance system (UI)

Net compensation ratio 2002



Source: OECD (2002)

Active labour market policy 2004



Source: OECD: Employment Outlook 2004

Active Passive

Work motivation

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

Country	Agree (totally or partly) %	Percentage Difference Index % ¹⁾
Sweden	75	64
Denmark	78	62
Norway	74	61
Switzerland	70	52
Japan	69	51
Germany	71	50
USA	60	36
Hungary	57	35
Portugal	63	34
UK	55	27
France	53	21
Netherlands	52	21
Cyprus	47	19
Ireland	52	18
Spain	52	15
Czech Rep.	47	15
Slovenia	43	0
Bulgaria	36	-7

1) Difference between "agree" and "disagree"

Source: International Social Survey Programme (ISSP), 1997.

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)

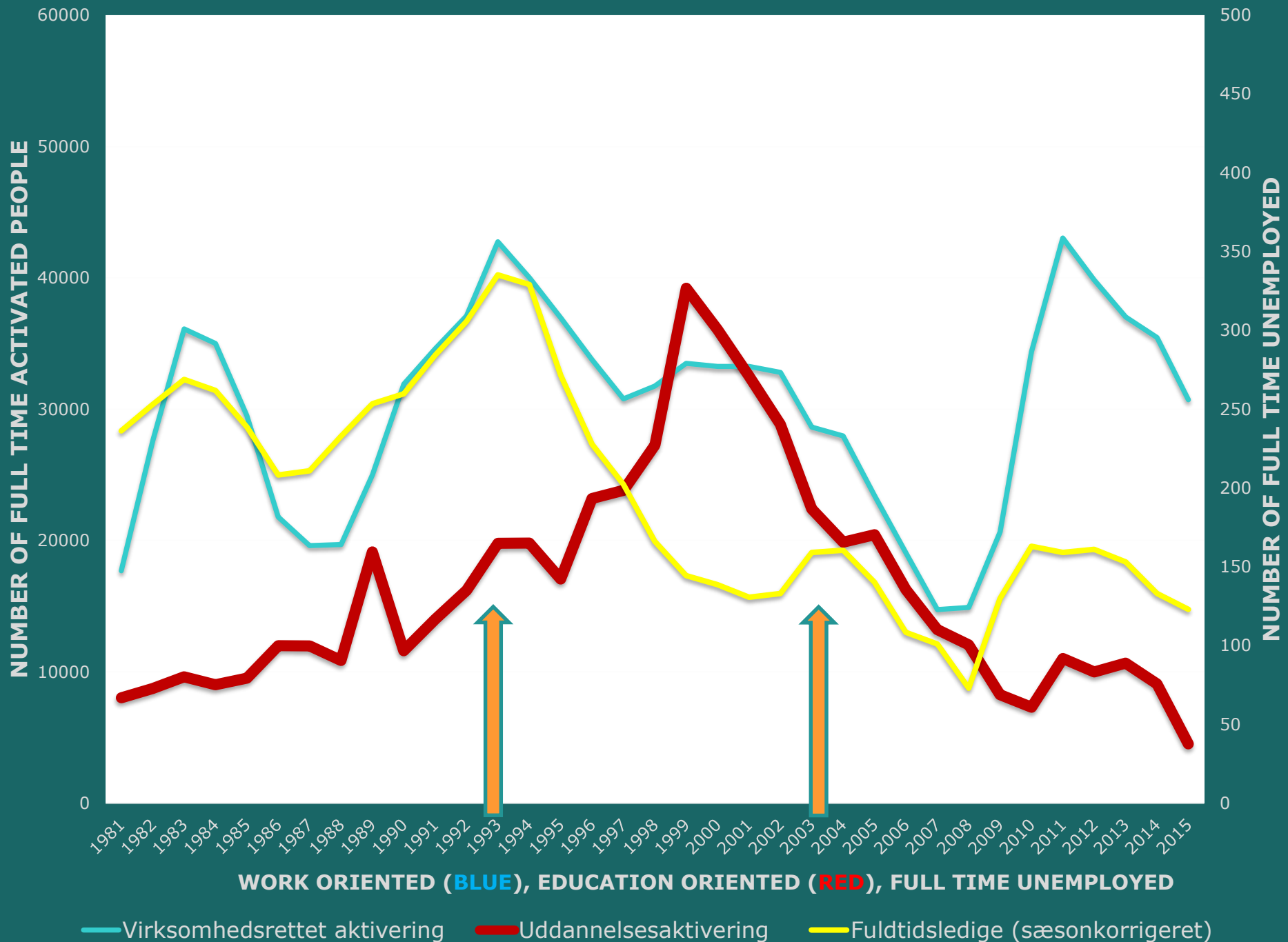
Processes:

- 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

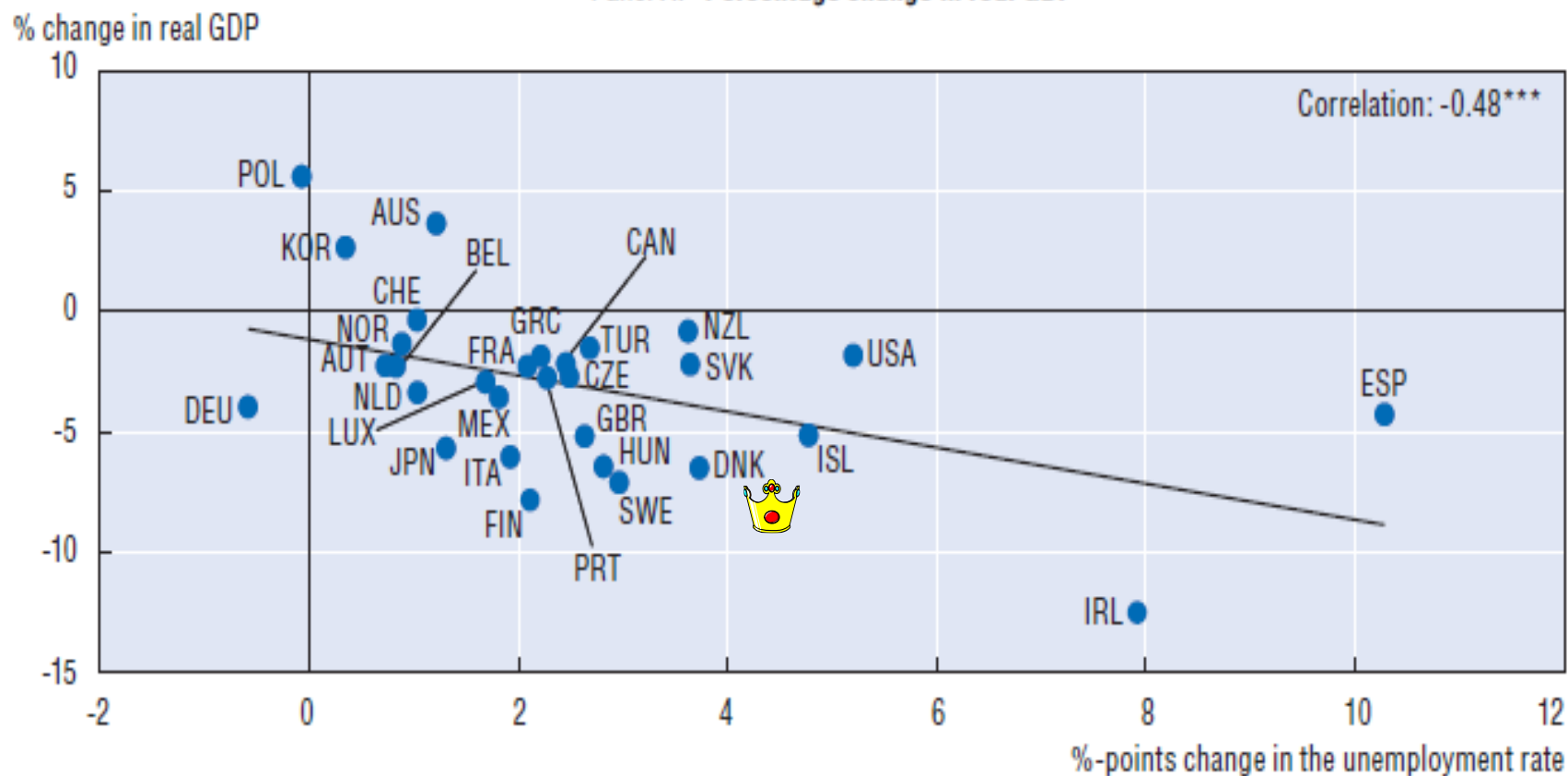


2008: The financial crisis – strong impact in Denmark

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



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

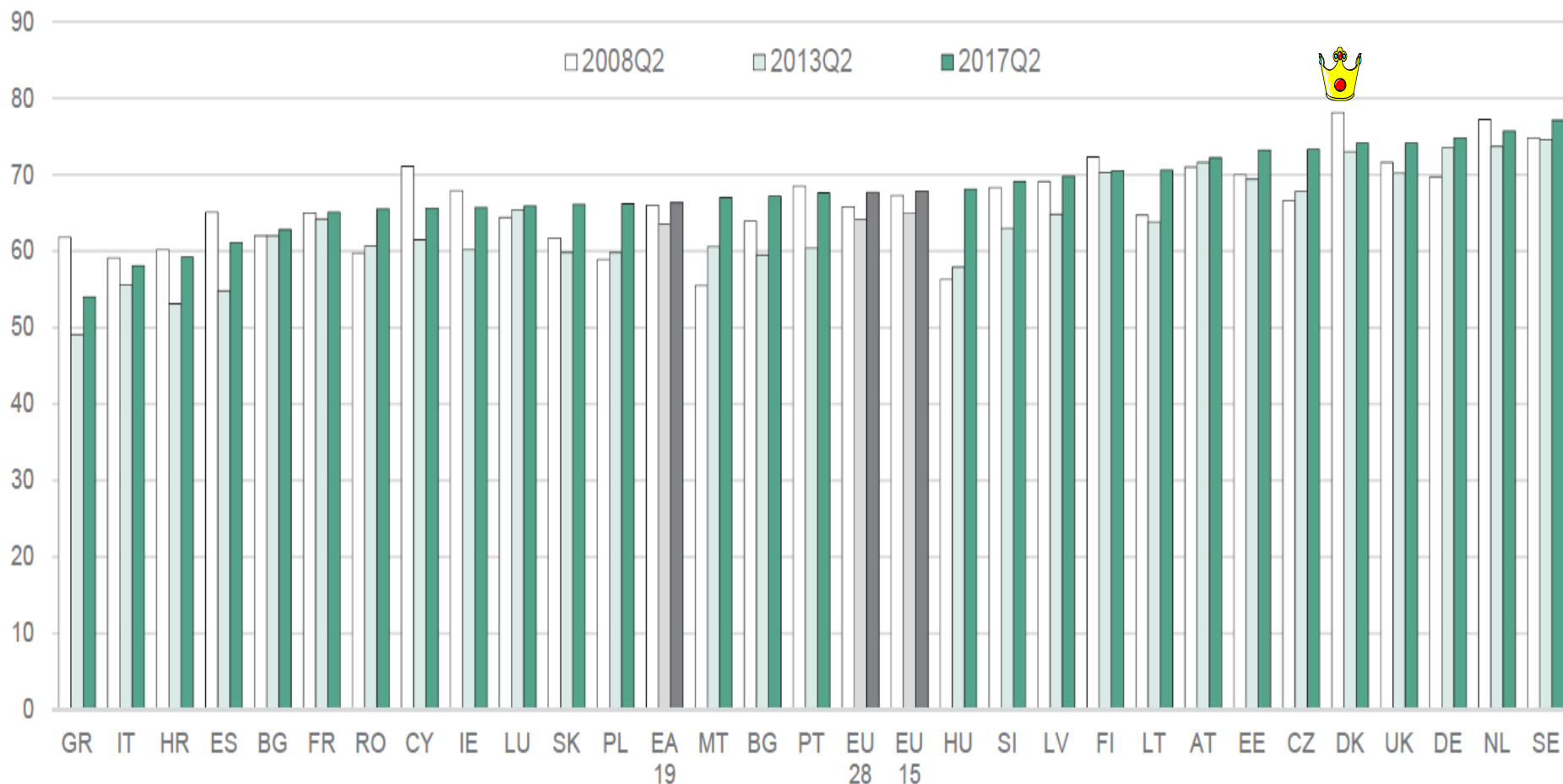
- Social democratic lead government, but still tight fiscal policy and tax reductions
- Postponed changes in the system of unemployment benefits for ½ year – but many people lost their benefits and more have followed
- Reform of employment policy 2015: called again for “an active labour market policy” 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)

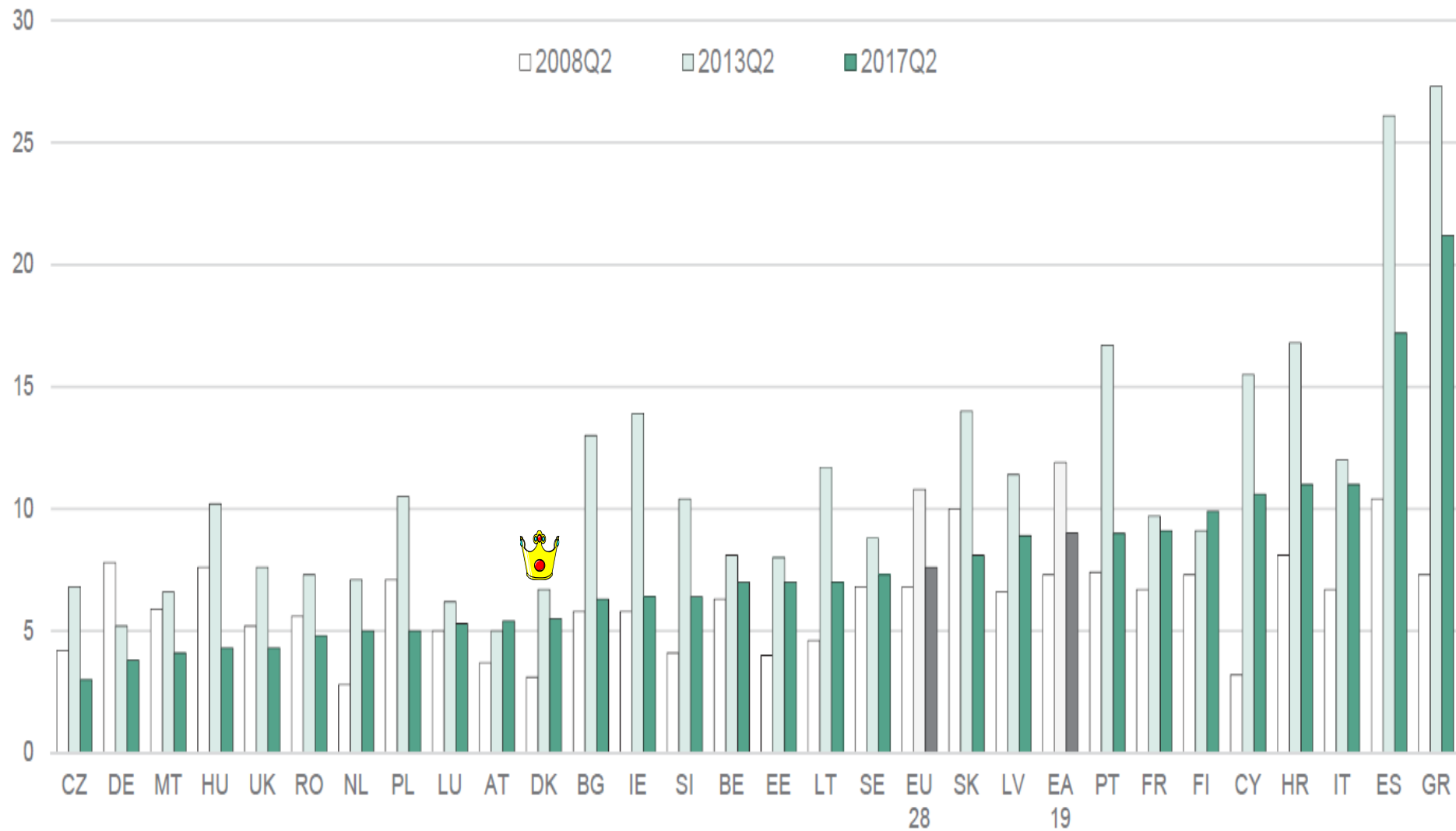


Source: Eurostat [lfsq_ergaed].

Note: Data are for the 15-64 age group.

Unemployment rate 2017

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

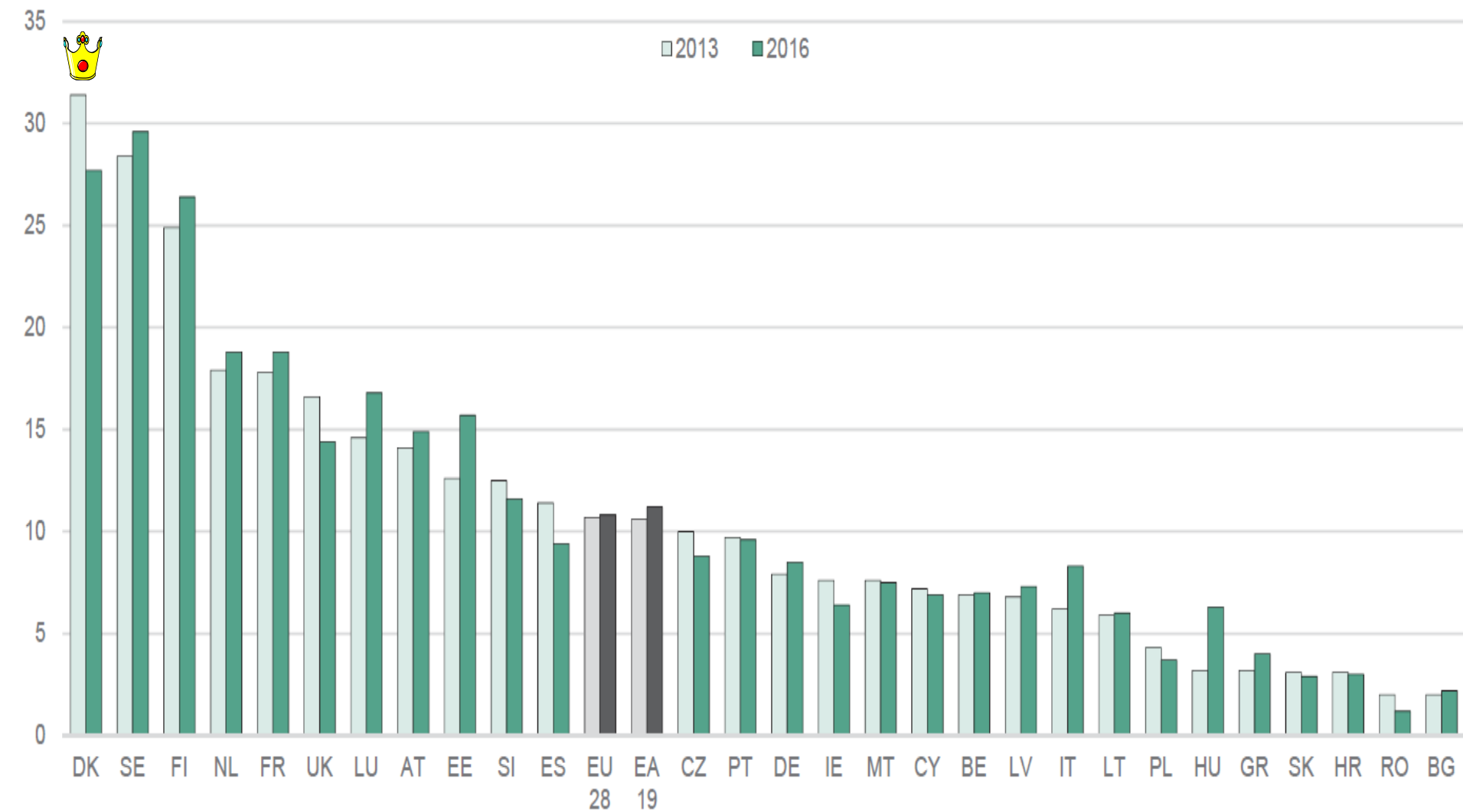


Source: Eurostat [lfsq_urgan].

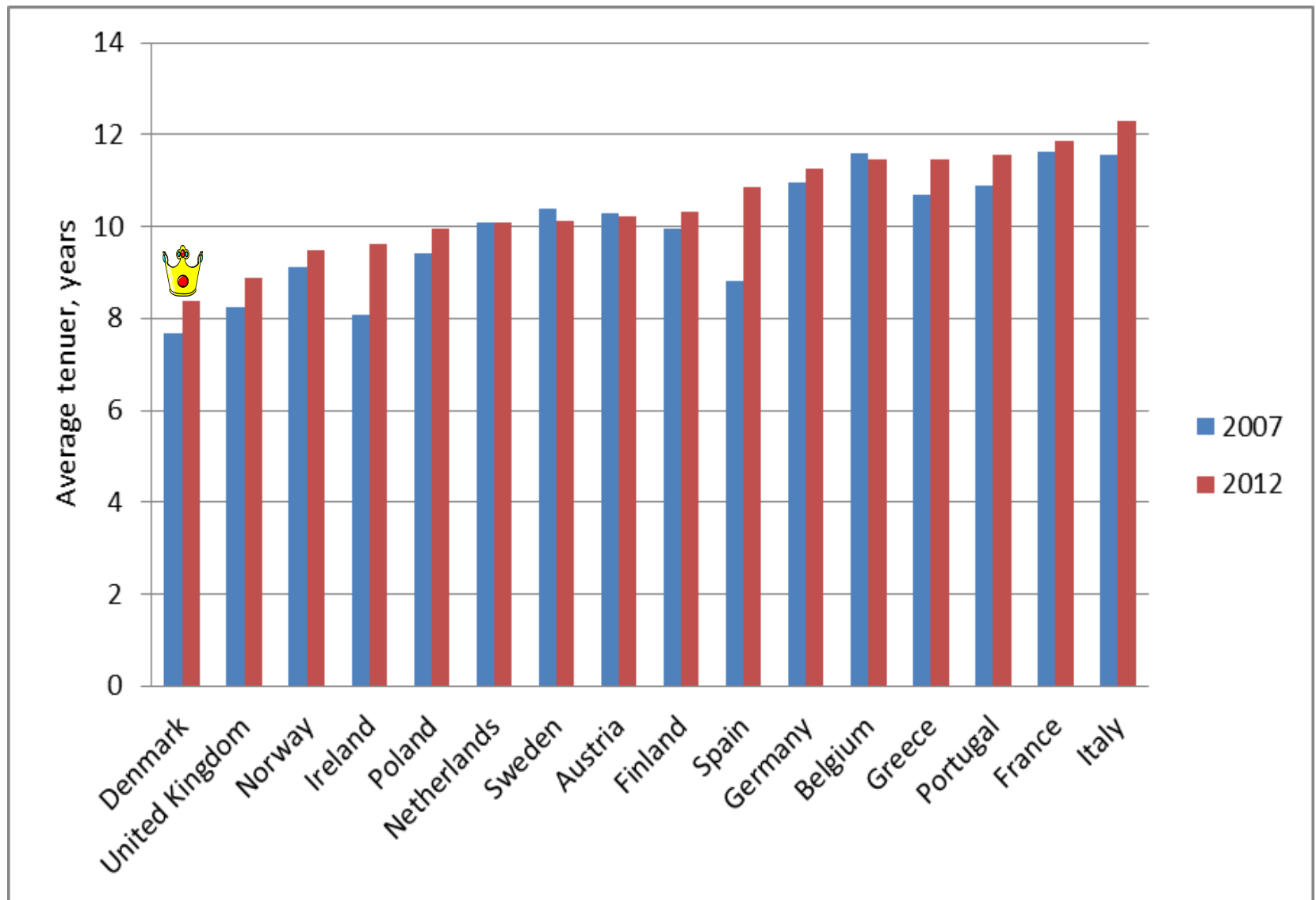
Note: Data are for the 15-74 age group.

Participation in CVET 2016

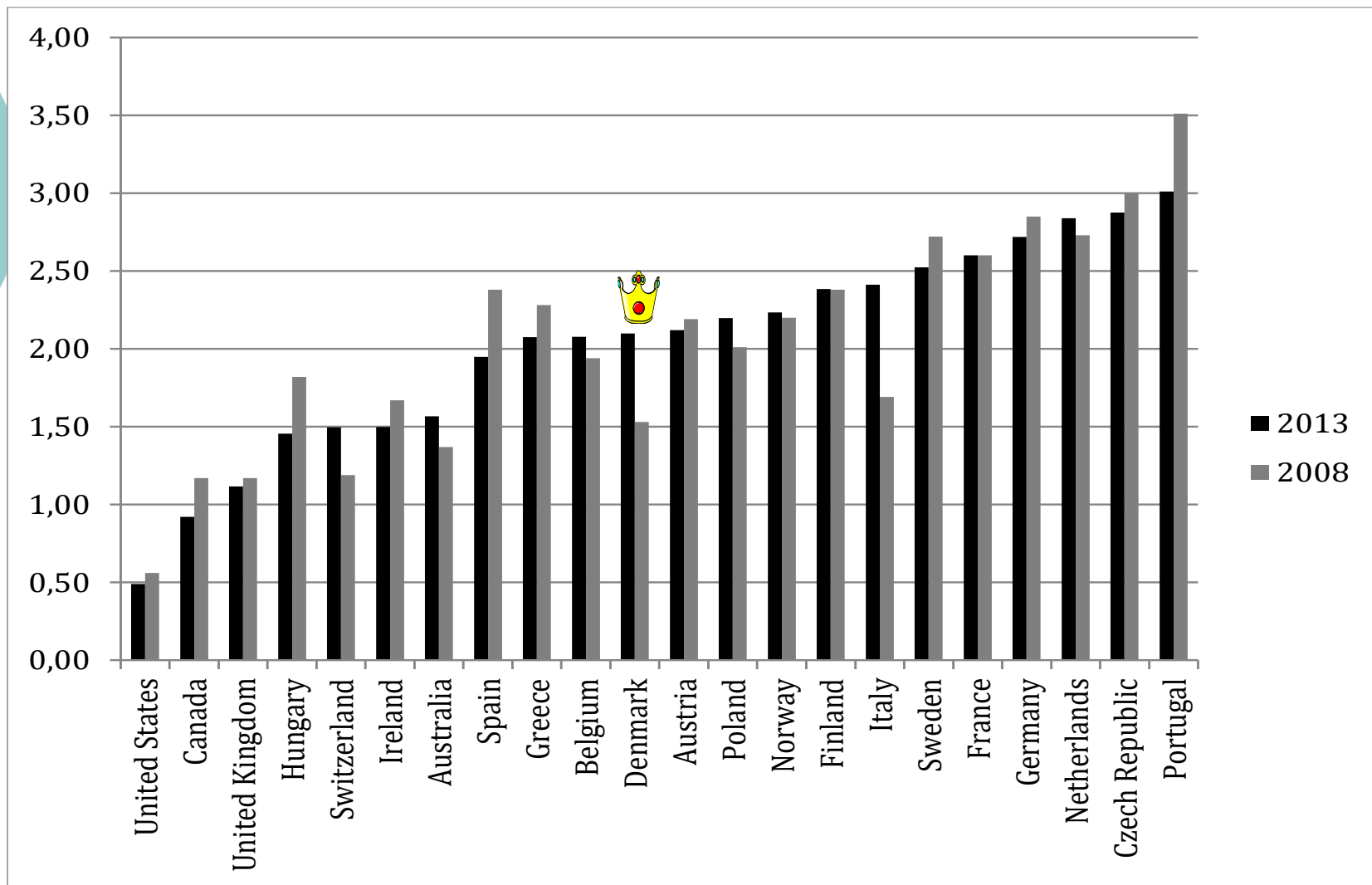
Figure 2.21 Rate of participation in education and training (EU28, EA19 and EU Member States) (2013 and 2016)



Average tenure: high job mobility



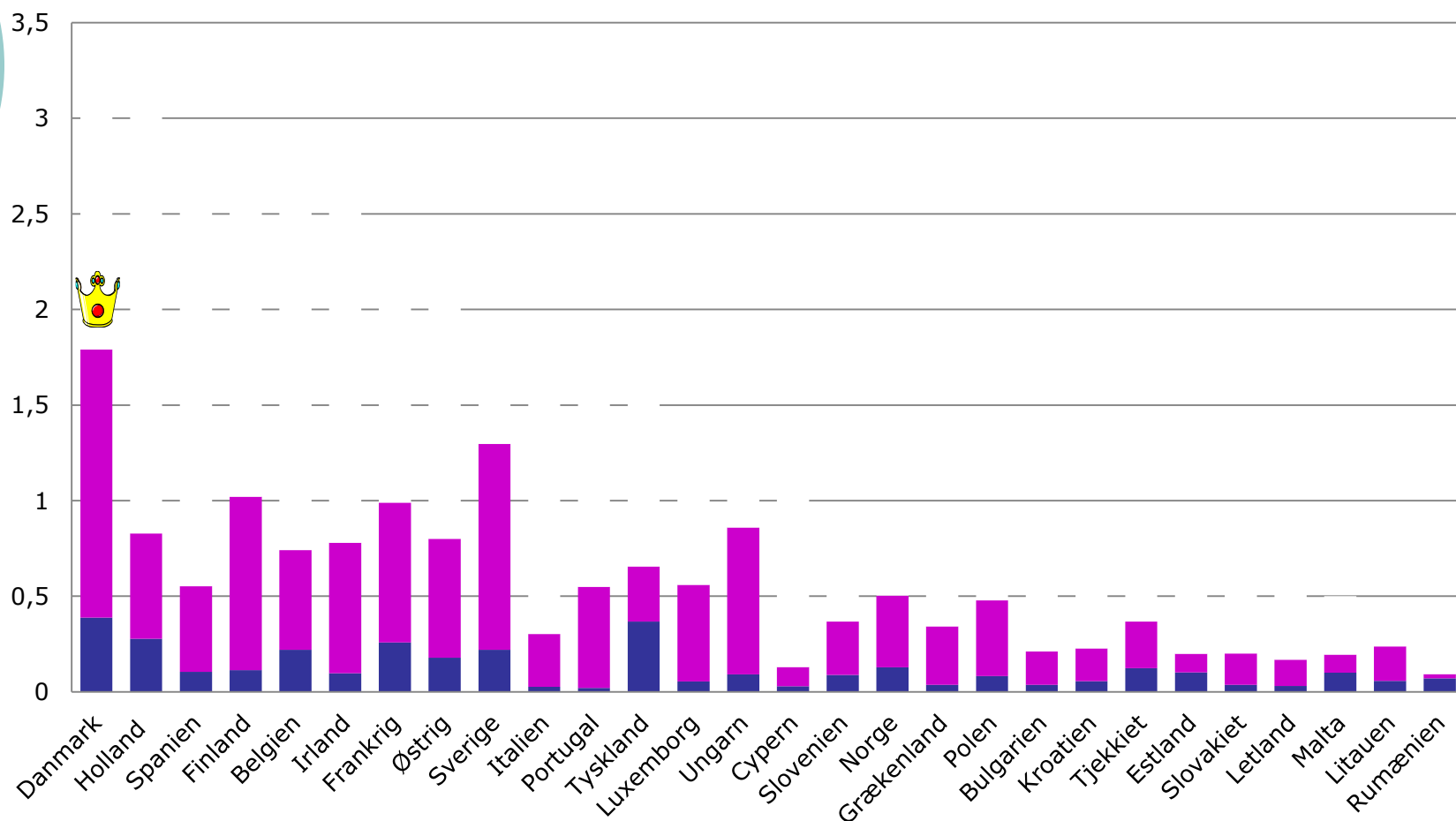
Employment protection 2008 and 2013



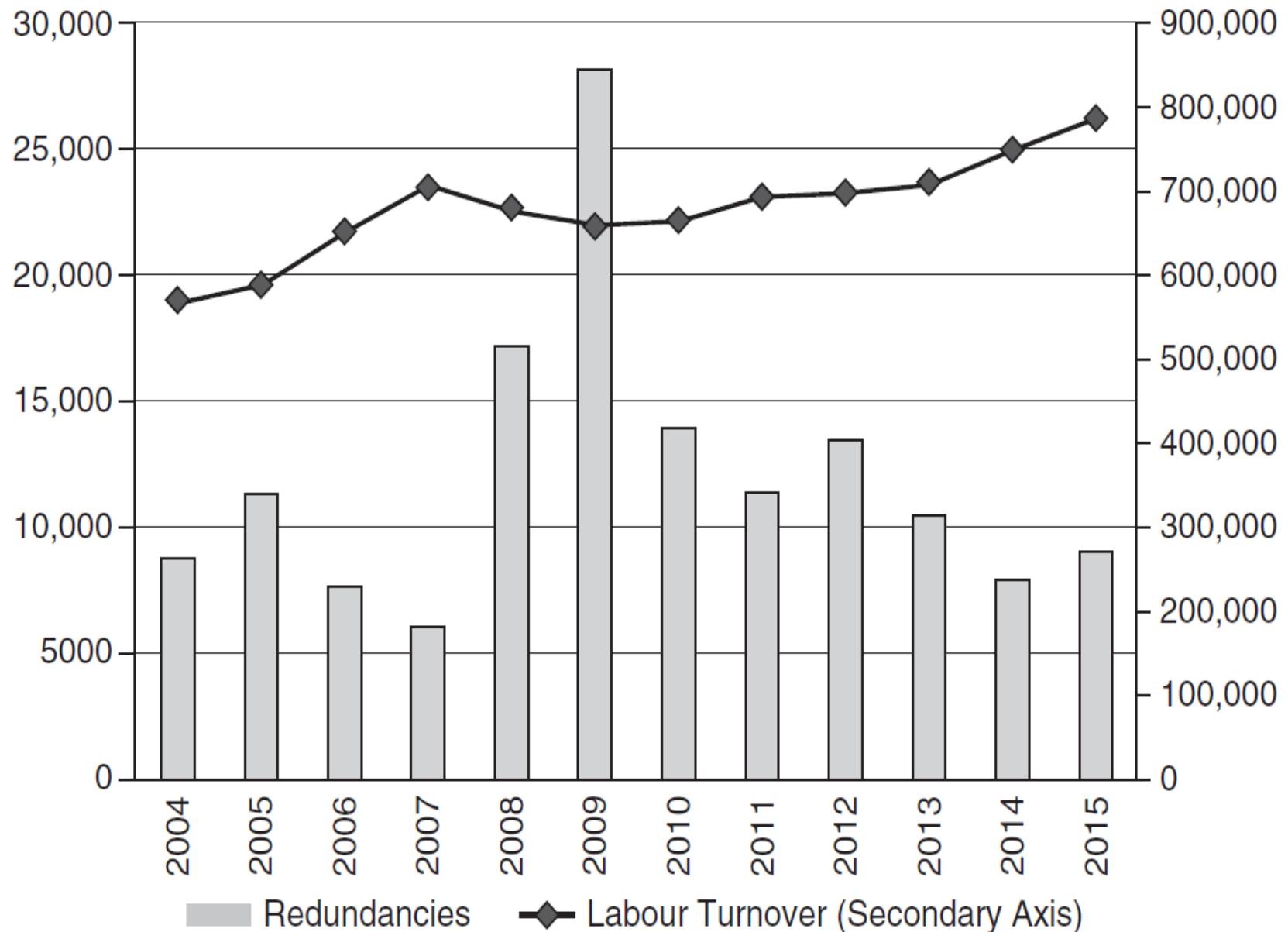
Kilde: Venn (2009) og OECDs EPL-databank (2013)

Expenditures for LMP

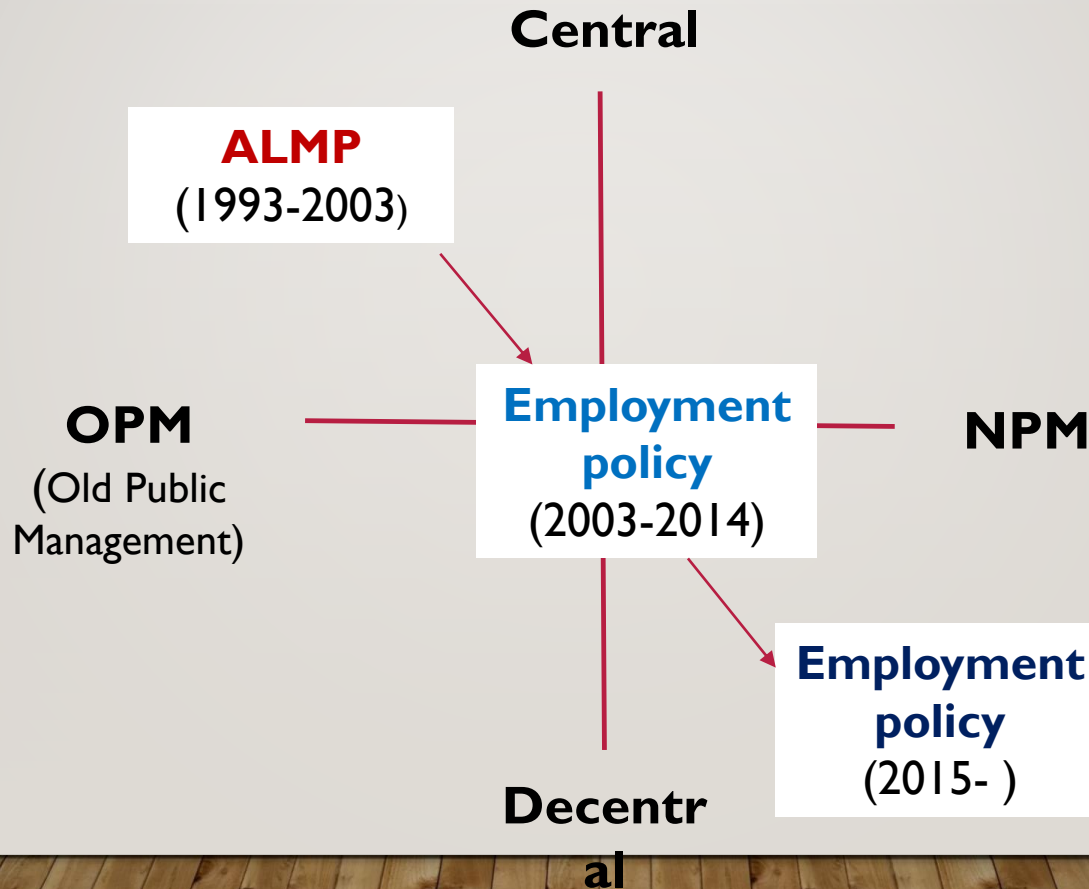
Expenditures as percentage of GNP (2014)



DK: Dynamics within the system: Redundancies and labour turnover



DEVELOPMENT OF LMP IN DENMARK



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)

