The seminar

The purpose of the seminar was to explore the issue of flexicurity and its implications for employment, skills, and growth in the United Kingdom. The main presentation was provided by Professor Per Kongshøj Madsen from the Centre for Labour Market Research (CARMA) at the University of Aalborg, entitled: “The Danish Labour Market Model: A Case of Flexicurity”. Presentations were also made by Mr. Gerald Flynn about the Irish system of flexicurity, and by Mr. Bill Wells, from the UK Department for Work and Pensions, about the UK system.

Flexicurity, Employment, and Skills in the European Union

At the Spring European Council in 2005 EU leaders established jobs and growth as one of Europe’s main political priorities. In so doing they recognised the need for a multi-dimensional set of policies to create a virtuous circle of high productivity growth creating high quality employment.

Across the European Union (EU) there are a number of different policy regimes that have achieved, with different degrees of success, high levels of growth and competitiveness but sometimes with markedly different outcomes for employment. On the one hand there are those countries that have relatively high levels of labour protection, and relatively generous social security systems but some of these countries have endured relatively high levels of unemployment over recent years, and in some cases low employment rates. On the other hand there are countries such as the UK that have emphasised flexibility: employment protection is relatively modest, unemployment and social security payments are relatively low, and there is a tendency to push people back into employment relatively quickly. But this policy mix has been successful in bringing about low levels of unemployment and high levels of labour force participation.

There are costs and benefits associated with each model. Countries such as Germany have been able to create a labour market characterised as a high skill, high wage one, but there are questions over how adaptable the German system is to changes in the market, hence its relatively high rates of unemployment. In contrast, the UK has been able to create much more employment but there are concerns that too much of it is low-wage and low-skill, and there are enduring concerns about the notion of low-skill equilibrium.

These are stylised facts about comparative European labour markets. In reality the situation is much more complex. Now there is a third way emerging that combines flexibility and security – flexicurity.

Denmark: home of flexicurity

Danish economic performance since the mid-1980s has been relatively strong: stable macro-economic environment, strong economic growth, high levels of competitiveness, low unemployment, and high labour force participation rates. In the labour market its achievements, in part, have been realised through a system labelled “flexicurity” where employers have relative ease in hiring and firing, but a relatively high safety net is in place to protect those who lose their jobs.
Security and flexibility are not contradictory but mutually reinforcing in the flexicurity model. The combination of security and flexibility can, in practice, bring about greater numerical and functional flexibility in the workplace and economy more generally. Numerical flexibility is realised by the employer through the relative ease with which they may terminate employment if need be, and functional flexibility is realised through active labour market policy measures which provide people with skills needed to operate in, or transfer into, growth areas of the economy.

There are potential downsides. Numerical flexibility may stimulate jobs growth but it might induce firms to invest less in human capital in a labour market characterised by high levels of labour turnover. Hence the need for a safety net allied to active labour market policy. Denmark has the highest level of labour turnover in the EU – with each person having had around six jobs - and the Danes regard this is as a positive feature. But in order for this to operate effectively employees need a degree of security if they are to move into and out of jobs.

To understand flexicurity in the Danish context requires comprehension of the “Danish Flexicurity Triangle” (see below)

The Danish Flexicurity Triangle

![Diagram of the Danish Flexicurity Triangle]

Source: Madsen, 2007

Employers can hire and fire employees easily because of relatively low levels of employment protection regulation, but where people lose their jobs relatively high benefit replacement levels (and unemployment benefit lasting for up to four years), together with active labour market policy (especially re-training), allows structural adjustment to take place without high levels of unemployment arising. There is a high degree of consensus from the social partners that the system works; it has become part of the Danish social contract.

The social security system also contains an element of “threat”. In order to continue to receive benefits individuals need to agree to participate in active labour market measures to help them find work. For many people, the threat of activation measures is sufficient for them to re-enter the labour market without entering into any programmes. For the individual employee the system is based around a set of rights (access to various labour market measures) and responsibilities (to get back into work).
Is the Danish experience so very different?

Historically, Ireland has had a labour market regime similar to that of the UK. But since the late 1980s it has embarked upon a programme of adjustment in its economy that has taken it in the direction of flexicurity. Until relatively recently Industrial relations in Ireland have been adversarial but under the aegis of the State and the introduction of a series of National Plans the Irish economy has been able to foster social partnership.

Social partnership - and the use of National Plans - have been part of the renaissance of the Irish economy such that it is now one of the strongest in Europe because the socio-economic system has allowed, as in the Danish case, structural adjustment in the economy to readily take place.

Currently, with the latest National Plan Towards 2016 the aim is to bring about “The Developmental Welfare State” which will, amongst other things, provide more generous levels of social protection and ensure that there is no erosion of skills when people exit employment (for whatever reason). From a flexicurity perspective Ireland has relatively low levels of employment protection but appears to be somewhat different to Denmark with respect to levels of social protection or active labour market policy. The evidence seems to suggest Ireland is moving towards flexicurity but is yet to achieve it.

The UK tends to be the odd one out; the country in Europe that has embraced flexibility rather more than anywhere else. This is a stylised fact, but how true is it? There is little doubt about the flexibility side: employment protection measures are on a par with those of Denmark, but what about levels of social protection? Whilst social security payments are less generous than in Denmark – and most of other northern EU countries – they tend to be more comprehensive, as they include more people. So the safety net is lower but more people are protected by it.

Where the UK is markedly different is with respect to: (a) active labour market policy; and (b) social partnership. As a percentage of GDP spent on active labour market policy the UK ranks amongst the lowest in the EU – about level with Romania and Bulgaria – and much of what is spent is on administration rather than programmes. The reason for this is that evaluation evidence, such as the OECD Revised Jobs Study, reveals that active labour market policy is both expensive and inefficient. Getting people back into work – a work first policy – is more effective in reconnecting people with the labour market than measures designed to improve employability. It is not that the employability issue is not important, it is that employability is more likely to be fostered by people being in work than through active labour market policies to improve employability and then push people into work.

The Danish system works because the social partners believe it works, hence unions are willing to accept low levels of employment protection because other forms of protection exist where people might lose their jobs. But Britain has no comparable system of collective bargaining and hence the employee’s voice is rarely heard in the UK case.

The approach taken by the UK is that generating high levels of employment produces social protection – because people are less likely to be benefit-dependent – and a flexible labour market is one of the keys to bringing about high levels of employment.
The implication for skills and other issues

Good labour market performance is dependent upon stable macroeconomic environment, incentives for labour market participants to get into work, and strong product market competition. The socio-economic systems in Denmark, Ireland, and the UK all have these features. But what added benefit does the flexicurity model bring? And to what extent is the flexicurity model dependent upon active labour market policy related to skills training?

Active labour market policy forms part of the security package and, accordingly, forms an integral part of the system to which the social partners have signed up. It is also seen as part of the process that facilitates structural adjustment in that it provides skills training to those who lose their jobs in declining parts of the economy. In many respects the active labour market policy pillar cannot be viewed in isolation from the other parts of the system, it tends to work together holistically.

The transferability of the Danish system is a moot point as the system derives from the historical development of the Danish economy. What is instructive about the system is its capacity to bring about structural adjustment in the economy with people moving in and out of jobs in the context of a high degree of economic and social security, such that the unions are not resistant to workforce reductions, and the market does not drive down quality or wages.

Is this any different to the UK system? The key issue, which is yet to be fully evaluated, is the extent to which the flexicurity model stops skill shortages being a drag on economic development. If flexicurity is able to bring this about then it will provide countries such as Denmark with a distinct advantage.