
macroeconomía del desarrollo

Flexible labour markets, workers' protection and “the security of the wings”: A Danish flexicurity solution to the unemployment and social problems in globalized economies?

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Abstract

During these years of growing global uncertainties, financial and economic pressures, nations and international institutions are searching for political, social and professional answers to the new challenges. The Washington consensus has discredited itself in more respects. Denmark seems to have found effective answers to adaptation needs with its flexicurity system: a labour market arrangement that builds on high mobility, high income security, employment security, and active market and educational policies. Security and flexibility is combined in innovative ways, giving wage earners transferable qualifications and social security while at the same time improving the dynamics of the labour market and the economy as a whole. There is no master plan behind the Danish system but politicians have realized that giving the social partners pivotal positions in decision making and in implementation structures help realizing the political aims of full employment, welfare and equality. This "high road" to competitiveness, social cohesion and lifelong learning has been made a role model for Europe in 2007 by the help of decisions by the European Union. And the question is posed to Latin America: why not learn something from this flexicurity arrangement? The potentialities for learning are stressed in this report but it is argued that flexicurity must be promoted not as a question of imitation but one of inspiration in a Latin American context. Three policy principles of flexicurity are considered: policy design, social dialogues, and outcomes of such a system, the orchestration of which is to be a national matter.

I. Adaptation needs, the search for role models and Danish flexicurity

Globalization is considered to bring new uncertainties, common pressures, and also more common national reactions to the new challenges. This might not be the case. Uniform national answers are hardly probable. World wide, companies and labour market institutions are clearly under pressure to adapt efficiently to more globalized conditions and internationalization of employment is growing (Auer, Besse and Méda 2006); but at the same time actors in national systems try to preserve and change social and welfare arrangements in order to find competitive and just solutions to the new challenges. Greater demands are placed on the work force. New skills must be acquired and professional, geographical as well as mental mobility must be high. At the same time, workers must be protected against loss of job opportunities and income and against coming down in the world. New kinds of securities and protected transitions are in demand. And as demography and technological changes put even stronger pressure on national systems, the search internationally for successful formulas or role models for such combinations of flexibility and security is intensified.

Not long ago the Netherlands was conceived as a European role model because of its success with combating open unemployment. The "Dutch job miracle" (Visser and Hemerijck 1997) became famous and much admired during a shorter period of time – but then more people

realized that it was based on part-time employment relationships to the disadvantage of women and that more kind of problems were embedded in the economic success of the country. Previously, the New Zealand experiences with neo-liberal policies from the 1980s had a parallel status. It failed too in several respects – and also in having international reputation for successful management of the labour market and the economy as a whole for a longer period of time. More countries could be mentioned in connection with this phenomenon: to be appointed role model for other countries (Scharpf and Schmidt 2000). It is a bit dangerous to be trendy. As soon as a country get famous as "model", it seems to get close to the end of this fashionable reputation. Countries come and go as role models. The Danish philosopher Søren Kierkegaard was right in saying that if you marry time, you will soon be a widow!

Now Denmark with its flexicurity arrangements is having a unique European status as a role model for the rest of Europe, assisted by decisions in 2006 and 2007 by the EU institutions. In 2006, the EU Commission defined four main components of flexicurity (flexible labour market arrangements, comprehensive lifelong learning strategies, active labour market policies and modern social security systems), and in 2007 four different "pathways to flexicurity", to be further developed by the individual member states, were specified¹. From the Communication of the EU Commission "Towards Common Principles of Flexicurity" in June 2007, the European Council officially confirmed these principles in December 2007. On the 1st of February 2008, the EU Commission, finally, has set up a fact finding "Mission for Flexicurity" with 7 permanent members, headed by Vladimir Spidla, Commissioner for Employment, Social Affairs and Equal Opportunity. A progress report and a final Mission Report will be ready in 2008 and presented to the ministers of employment. From the last quarter of 2008 and in 2009 and 2010, member states will have to report on the implementation of their national pathways to flexicurity, in the framework of the National Reform Programmes of Autumn 2008. The social partners have also contributed to a common understanding and support of flexicurity by a joint communication in October 2007. It is clear from this short overview that no single EU country can avoid making explicit flexicurity arrangements and try to benefit from experiences in other countries. The EU institutions defines flexicurity as a policy strategy to enhance, at the same time and in a deliberate way, the flexibility of labour markets, work organisations and labour relations on the one hand, and security – employment security and income security – on the other. In all its efforts the EU stresses the importance of active labour market policies, lifelong learning and training and is strongly supporting policies to secure equal opportunities for all and equity between women and men.

1. Danish flexicurity and employment

Among the EU countries, Denmark and the Netherlands have been the most often used examples of well-functioning flexicurity systems. Denmark seems at the moment to be the principal role model as Denmark already has realized nearly all targets in the Lisbon strategy. The Danish system is becoming a political celebrity – and treated accordingly (Jørgensen and Madsen 2007). Who can make use of this? Is flexicurity as a policy formula for solving employment and social problems to become a new spectre haunting Europe – and in the future Latin American countries as well? Or is the Danish flexicurity system to be regarded as just the "flavour of the month"? Most European countries still have high and structured unemployment, employment rates below the Lisbon targets, inflexible labour market structures, low productivity increases, and more social problems stemming from labour market developments. Those kinds of problems are addressed by a variety of European policies at the moment, but not very successfully.

¹ The various pathways should be designed in accordance with national situations, but the basic four pathways are highlighted as:

pathway 1: tackling contractual segmentation

pathway 2: developing flexicurity within the enterprises and offering transition security to workers

pathway 3: tackling skills and opportunity gaps among the workforce, and

pathway 4: improving opportunities for benefit recipients and informally employed workers.

In this report arguments will be given for considering the relationships between the core elements in the Danish flexicurity arrangement crucial for an understanding of the potentials of a high road to high or full employment, competitiveness and social welfare – at the heart of the goals of European policies at the moment². The Lisbon strategy (in its original formulation from 2000), the European Employment Strategy and the discourses on the European Social Model are all heading for ways of bridging economic efficiency with social justice and innovative policies in balanced ways. The special Danish combination of elements in its labour market and educational policies and industrial relations arrangements, framed by universal welfare state provisions of services and income security, seem to offer a suitable alternative to the stickiness of Continental and Southern European systems and to the one-sided, socially unbalanced Anglo-Saxian systems.

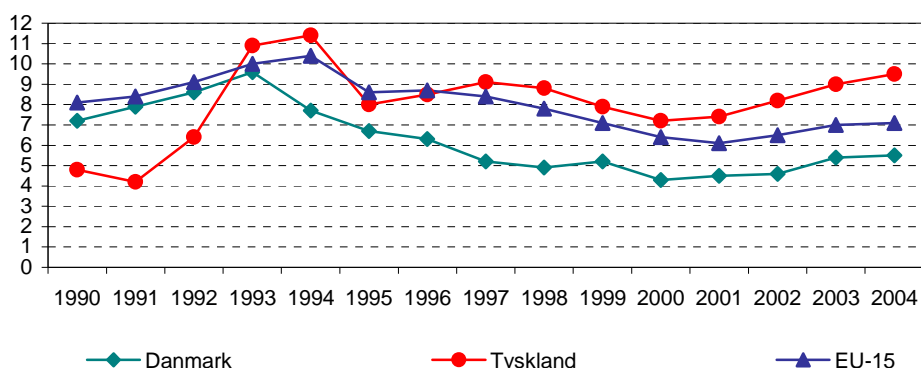
It has become costume to talk about learning and, definitely, it is collective learning that must count as a prime mover for innovation and policy developments. But it is also a fact that you can not copy a system. No country can make total policy transfer of another labour market or welfare regime – but you can use insights from other systems as part of political strategies for improving and changing your own system. Therefore, it is crucial not to regard the Danish system as a role model than can be duplicated – only a case to be learned some policy lessons from. The political and professional strategies embedded in the labour market and welfare regimes are the interesting ones to study if you want to reflect on the possibilities of learning across borders. The feasibility of the Danish strategies in a Latin American context will be reflected upon here at the end of the report.

History matters and institutions matters as well. But how do they do this? Here you must follow national developments. The Danish flexicurity system is a historical result of many more or less wise decisions, conflicts, institutionalizations of compromises and collective learning results but its way of functioning is having political-strategic potentials for more than the Danes. This means that strategic lessons can have political use value for decision-makers elsewhere. Economic, political and cultural factors have to be considered when implementation and adaptation to national circumstances is to take place. Policy legacies and preferences often prevent a new kind of learning or "fit" of potential policies with existing traditions and power distributions. And often governments simply do not want to learn! In this case they might be worse off. Historical and systematic analysis of the Danish system and its institutional pillars are to be found here as well as some fundamental points of view as to policy transfer for Danish strategies and arrangements.

Undoubtedly, the reduction of open unemployment in the Danish system during the 1990es, which was quick and strong compared to European developments and especially in comparison with German unemployment developments was among the first reasons to begin looking at Denmark. The changing unemployment levels can be seen in figure 1. Long-term unemployment was brought down quickly during the 1990es in Denmark. The de facto passive component of unemployment benefit was on an average reduced for adults from four years in 1994 to two years in 1998 and again to one year in 2000. The formal length of the unemployment benefits period was also reduced from seven to four years during the period 1993-2000. This is still a very long period compared to other European countries but it signals to workers who enrol in the unemployment insurance system that they do not have to fear an unemployment period; but you have to be engaged in developing your competences and skills also by participating in "activation" measures (job training, education and so on).

² By a "high road" is meant a societal choice of active public policies, lifelong learning strategies, and high value production, also involving decent wages, according to the European understanding. This in contrast to a "low road" to growth and welfare based on more market based solutions to job growth, low wages, retrenchment policies and low investments in skills and abilities in order to keep enterprises competitive. The metaphors have parallel relevance to the lines of division between proponents of a social liberal (or social democratic) and a neo-liberal (and neo-conservative) political strategy. – The European notion is to be separated from the discussion of a high, middle and low road to democratic governance of the Latin American systems to be found in some parts of Latin American Research (see Korzeniewicz and Smith 2000).

Figure 1
UNEMPLOYMENT DEVELOPMENTS IN EU, GERMANY AND DENMARK 1990-2004
(Percentage)

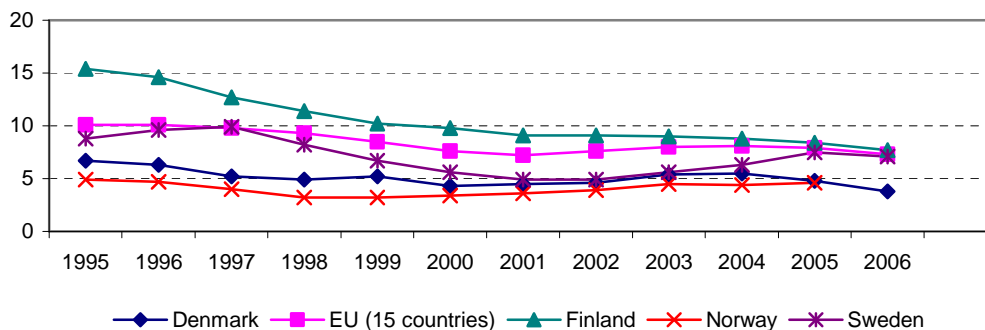


Source: Eurostat

Next, high and rising levels of employment, the inclusion of almost all women in the labour force, welfare improvements and growing productivity within Danish economy draw the attention of many European decision-makers and social scientists to the Danish case. The broader Scandinavian example of choosing a “high road” to growth and welfare was also discussed. But the Danish flexicurity arrangements with easy access for employers to hire and fire together with strong incomes security and active labour market policy soon had the biggest appeal to politicians, commentators, and academics.

The historical and institutional roots of the Danish labour market regulation are important as is the political traditions of corporatist decision making and cooperative adaptation (Jørgensen 2002). They are interrelated. Much of this resembles policy elements in the other Scandinavian countries and the same learning based way of securing good governance has been crucial for the Scandinavian countries to overcome economic problems (in Denmark during the late 1980es and in Sweden and Finland in the beginning of the 1990es) and to combat unemployment during recent years. The deep economic crises during the first part of the 1990es in Sweden and Finland shocked the normal political life and policy priorities were changed, but restoration of full employment goals and welfare elements in improved governance structures were soon to regain momentum and establishing policy success. In figure 2, the Scandinavian development of unemployment during the last decade is documented (based on national statistics).

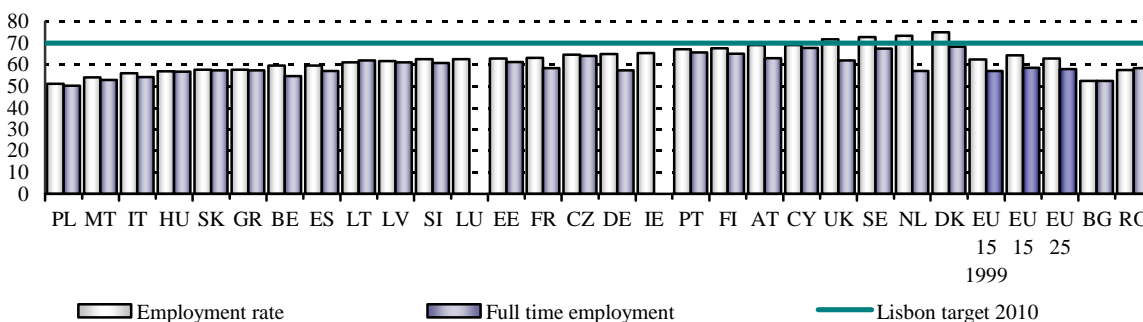
Figure 2
UNEMPLOYMENT RATE IN THE SCANDINAVIAN COUNTRIES 1995-2006
(Percent)



Source: Own elaboration.

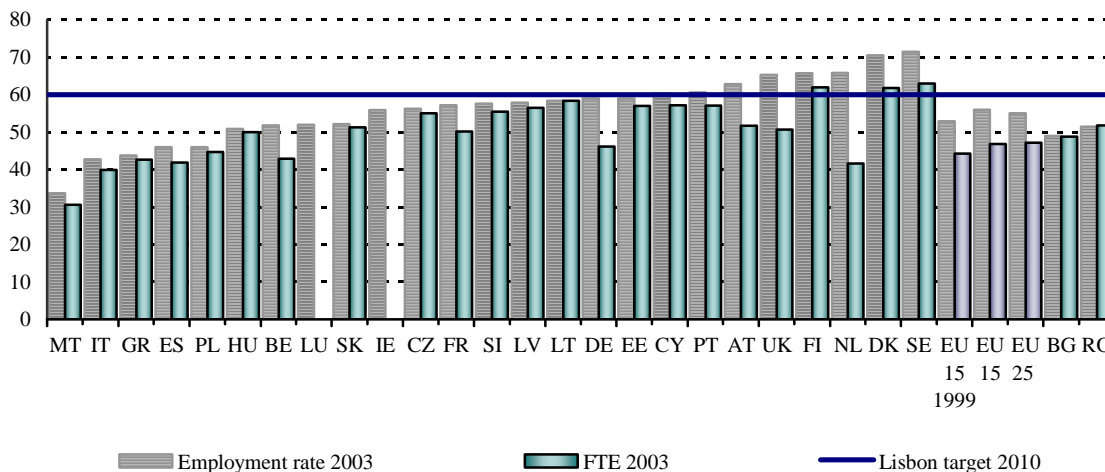
Because of its oil resources and other advantages, Norway has performed extremely well as to combating unemployment (formally outside the EU). It is, perhaps, much more difficult to explain the Danish developments: bringing the National unemployment figure down from 12.4 percent in 1993 to 5.0 percent in 1998. This is a remarkable change within such a short period of time; and at the same time Denmark is realizing high employment rates, Denmark is having the highest mobility within European labour markets and has even been improving more welfare state arrangements (such as child care facilities, early retirement schemes, pensions and education and vocational training facilities). Unemployment is no longer the most important problem within Danish society and both men and women have high employment rates. This is to be witnessed by figures 3-5, giving an aggregated picture of employment participation (figure 3), a gender based measurement, showing the high employment rate of women in Denmark (figure 4), and the comparatively strong representation of elderly people in Denmark (figure 5). And the Lisbon targets for 2010 of the EU as to employment levels have been plotted in too. The three figures (based also on ETUI: Benchmarking Working Europe 2004) document that Denmark (DK) together with Sweden (SE) constitutes the best performers having already realized the Lisbon goals.

Figure 3
EMPLOYMENT RATE IN EUROPEAN COUNTRIES, 15-64 YEARS, 2003
(Percentages)



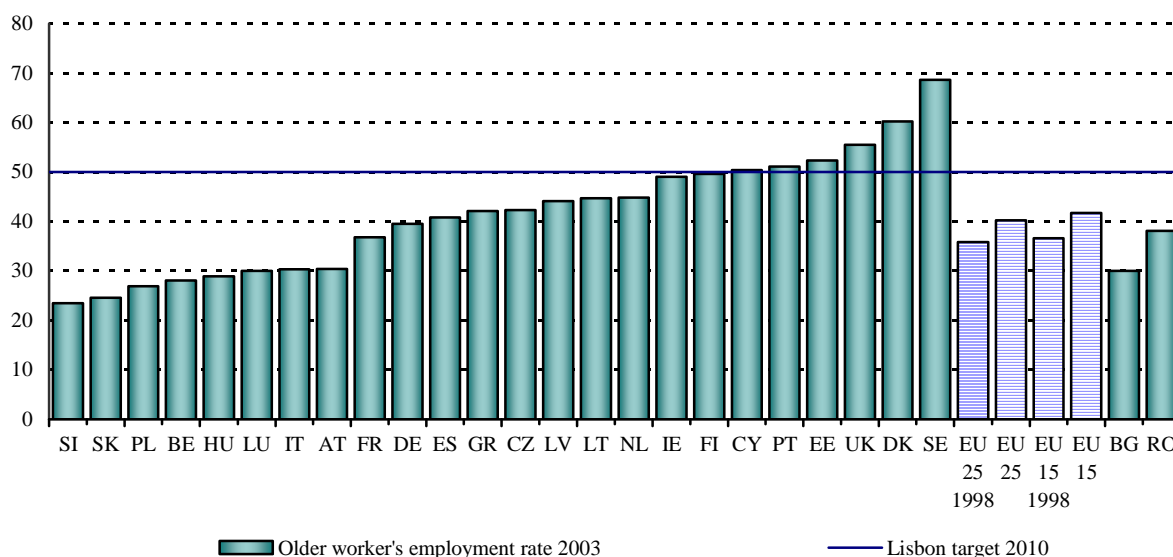
Source: Eurostat, 2004d.

Figure 4
FEMALE EMPLOYMENT RATES IN EUROPEAN COUNTRIES, 15-64 YEARS. 2003
(Percentages)



Source: Own elaboration.

Figure 5
EMPLOYMENT RATE OF OLDER PEOPLE, 55-64 YEARS, 2003
 (Percentages)



Source: Own elaboration.

At the time of writing (summer 2008), the unemployment figure in Denmark is down under 2 percent and there is a surplus on all economic indicators (the balance of payment, the public finances and so on). The labour market is simply in need of more labour supply now. The economic textbooks are also to be revised as the Danish developments have shown that it is possible to reduce unemployment and increase employment at an accelerating rate without doing damage to the fundamental economic policy goals. Wage inflation has not been a problem even if the labour market situation has changed so dramatically³. Public finances were not in a good state of condition in the beginning of the 1990es but as the result of the new policy mix and improving economic conjunctures this situation has been dramatically changed⁴. It should also be noted that no sharp shifts have been observed as to the income distribution. Stable economic growth and social welfare seem to be combined in a new way.

As to developments of real wages during the 1990es and the beginning of the 2000es, a steady growth of 2 percent per year can be recorded and this at a moderate level of nominal wage increases. The experiences of Danish wage earners have been that rising living standards actually can be realized while having moderate wage increases. Here the efforts in active LMP to improve the functioning of the labour market have had a profound influence and importance. Stronger supply of qualified labour, better quality of measures, better transparency, and avoidance of bottleneck problems have contributed to this result.

Then, what are the core relationships between a well-functioning labour market and public policies, and in which ways does the Danish flexicurity system contribute to securing high employment and social welfare simultaneously? You can also ask: What does the DNA pattern of Danish flexicurity look like? Is there a secret behind to be told to Europe, to Latin America, and to

³ In Annex A you will find documentation by the help of the Danish Phillips curve. It simply flattened out in connection with the implementation of new labour market reforms even if the labour market situation has been approaching full employment. Normally, the Phillips curve is used to specify a choice on the menu for combinations of (high) wage/prise increases and (high) unemployment. The empirical evidence indicates a steep fall in structural unemployment in Denmark.

⁴ In Annex C changes from 1995 to 2005 are documented as to four central indications of Danish public finances.

the rest of the world in choosing a high road to competitiveness and social cohesion? And how will such a road map for realizing these goals at the same time look like when building on Danish experiences? These kinds of questions will be dealt with in the following.

2. Forms of flexibility and security

But you have to state initially that no firm analytical concept and no definite and agreed-upon research strategy and methodology have been found yet in the flexicurity literature (see Jørgensen and Madsen 2007). Originally, the concept was used by more (Dutch) scholars as a political strategy (see Wilthagen 1998), but now it seems more fruitful to understand flexicurity as a concept covering the functioning of a labour market regime, especially in relation to mobility and security, and taking into account the political framing of the system. Here a working definition of flexicurity is used as *the institutionalized relationships between a labour market regime and interventionist policies in relation to security for wage earners and dynamics in the labour market*. Protected mobility, income and employment security and flexible use of manpower by employers within a welfare state framing are at stake; but specifications as to genesis and causal relationships need to be given in each case. Talking about a balance between flexibility and security can be misleading as it unduly simplifies the nexus to a compromise between employers and employees. *It is not a trade-off between flexibility and security as it is no zero-sum game*. Flexicurity is no political deal and no simple, one-sided political strategy. This is also to be documented by the analysis of the Danish flexicurity system.

A matrix of flexicurity forms, developed by Ton Wilthagen and others (Wilthagen et al. 2004, 2005) has been very influential in flexicurity research also on the EU level. This matrix combines different micro level forms of flexibility (numerical, functional, working time, and wages) with security forms (protecting jobs, income security, employment security, and combination security) addressing the question of balance between working life and private life, for example public child care facilities facilitating participation of women in the labour market.

Table 1
MATRIX OF FLEXIBILITY AND SECURITY FORMS ("THE WILTHAGEN MATRIX")

	Job security	Employment security	Income security	Combination security
Numerical flexibility (hire and fire)				
Functional flexibility (between tasks)				
Working time flexibility				
Wage flexibility				

Source: Wilthagen 2004

This matrix has been used in many studies to organize collection of data and to place different national systems in one or more "boxes". In table 1, different countries could have been placed in order to show the normal way of treating this heuristic tool. However, doing this kind of exercise is nothing more than classifying national systems or models (European Foundation for the Improvement of Living and Working Conditions 2007a and 2007b). It explains nothing and it might even be a bit dangerous to think you have concluded an analytical task by figuring out what kinds of flexibility are connected to different kinds of security. And finally, there might be methodological problems in combining the micro phenomenon with macro dynamics. Therefore, this study will make no extensive use of the matrix in this way in the concrete analysis. With more modest ambitions, you could use the matrix as a way of organizing considerations as to those kinds of different policies and measures contributing to a flexicurity arrangement. This has been done in table 2, omitting working time flexibility and differentiating between external and internal forms of numerical flexibility.

Table 2
EXAMPLES OF FLEXICURITY ELEMENTS (AS TO THE WILTHAGEN MATRIX)

Security Flexibility	Job security	Employment security	Income security	Combination security
External numerical flexibility	Types of employment contracts Employment protection legislation Early retirement	Employment services/ ALMP Training/life-long learning	Unemployment compensation Other social benefits Minimum wages	Protection against Dismissal during various leave schemes
Internal numerical flexibility	Shortened work weeks/ part-time arrangements	Employment protection legislation Training/life-long learning	Part-time supplementary benefit Study grants Sickness benefit	Different kind of leave schemes Part-time pension
Functional flexibility	Job enrichment Training Labour leasing Subcontracting Outsourcing	Training/life-long learning Job rotation Teamwork Multi-skilling	Performance related pay systems	Voluntary working time arrangements
Labour cost/wage flexibility	Local adjustments in labour costs Scaling/reductions in social security payments	Changes in social security payments Employment subsidies In-work benefits	Collective wage agreements Adjusted benefit for shortened work week	Voluntary working time arrangements

Source: http://ec.europa.eu/employment_social/employment_strategy/pdf/emco_workgroupflexicurity06_en.pdf

We have to go much deeper into the specific relationships between more elements in the system and try to explain the way the system is operating – historically as well as systematically – before any consideration as to the comparative status of the Danish case and possible lessons from the system can be made. But first, we have to introduce the reader to a number of important institutional and political traits of the Danish system.

II. Institutional and political traits of the Danish IR and welfare system

Denmark is a highly developed capitalist country with a universal welfare state frame. For more than 30 years, the service sector – public as well as private – has been dominant in the production structure and today more than seven out of ten wage earners are actually drawing their wages by being involved in administrative and service based activities. Only during a shorter period of time, from the 1950es to the start of the 1970es did the industrial sector employ a majority of wage earners in Denmark and delivered the strongest export trade to Danish economy. Now, a changing composition of the production structure and the working force is to be seen as knowledge based activities are mushrooming. Small and medium-sized enterprises are characteristic of the Danish production structure. 2.8 million people are enumerated as wage earners out of a population of 5.5 million.

The *universalistic welfare state* was grounded more than 100 years ago. Danish decision makers choose not to follow the German "Bismarckian" way of introducing social policy by the help of insurance based systems; in Denmark the choice was made early on in favour of tax based and universal arrangements giving each individual citizen both rights and duties in relation to the public authorities. During the second part of the 20th century, the Danish welfare state was developed into a comprehensive social security system with relatively generous economic compensation schemes and a lot of

service based supply of public help. A strong tax based system on progressive scales is fundamental to the operation of the public sector. Compensation, prevention and public services are used in order to have high redistribution effects within the system. Consequently, you will have extensive public social expenses. In 2003, public sector expenditures amount in Denmark to 28 percent of GDP (OECD 2007). The universal welfare system redistributes to a high degree, it takes over care functions and is promoting female employment. It builds on *citizenship*, giving everybody the same kind of benefits and services in accordance with political defined welfare standards (Hviden and Johansson 2007, Magnusson and Stråth 2005). And it is a women friendly welfare state, redefining the family concept with now two breadwinners in each family, and also employing many women in public functions. Welfare policies now cover a wide range of functions, each having special target groups, policy instruments and institutional set-ups. Welfare standards can only be met by developing comprehensive public services and here you will find public schools, public kindergardens, public hospitals, public educational institutions and other kind of services of general interest. The high taxes needed for financing this are normally accepted by the majority of the voters (Andersen and Hoff 2001) as they benefit from these arrangements and support guarantees themselves and because of the fact that egalitarian values have been accepted by a vast majority of the citizens⁵. Almost one third of the whole labour force is now employed by the public authorities.

A clear majority of these public employees actually have *the municipalities* as employers. Two third of all public money pass through the municipalities and most welfare service productions are organized here too. Actually, to talk of the comprehensive Danish welfare state can be misleading in this respect: it is primarily a municipal welfare system operating. In relation to influence and power in a state system, the Danish municipalities – of which there are now 98 but used to be 275 until 2007 – are amongst the strongest vis-à-vis the central state you can find in the world. You must stress the decentral nature of the system – as well as the impartiality of public administration and the tolerant and well-organized character of society. Expenditures for child care arrangements are twice as high in Denmark than the European average. Each municipality decides on the organization of this and other kinds of welfare provisions but are financially supported by the state in several ways – some as grants, others as earmarked as to kind of activity. The municipalities are also participating in labour market arrangements, the character of which will be touched upon later on. But first, we will have to give a short history to and a profile of the institutional arrangements in the Danish political-administrative and labour market systems. Even though the political and professional processes lying behind the construction of these systems have been conflict ridden, compromises and social understand between groups in society have been dominant. Class compromises have been cultivated for more than 100 years. Consensual, collective culture combined with a comprehensive welfare state constitutes this core of the Danish model (Jørgensen 2002). *Social capital* – the collective consciousness, collective memories and trust amongst people - is strongly developed (Rothstein 2003, SAMAK 2006).

Policy priorities have been relatively stable in Denmark for more than half a century. Full employment and economic growth constituted core political goals from the very beginning of macro-economic governance, highlighted as perhaps the most important policy objective during the 1950es and the 1960es, and they are also today top priorities in Denmark (and in the other Scandinavian countries as well). The Social Democratic Party has been in governmental positions during many periods even though it normally is only as minority government formations you see in Denmark. But right wing governments have also supported the core policy goals. Full employment was never abandoned even during periods of economic crises, the realities of which the Danes experienced strongly during the 1980es and in the beginning of the 1990es. A policy-mix of macro-economic policies and selective interventions, especially through active labour market and

⁵ The Danish tax structure heavily rely on progressive incomes taxes (and consumption taxes), while employers have very few social contributions to pay.

educational policies, has been central means of trying to reach the goal of full employment. At the same time socialisation of risks through comprehensive welfare systems has been a key trait, giving people a decent level of income substitution in case of unemployment, sickness, growing old, accidents and other social circumstances, seen from the side of society as a common responsibility to compensate. Only during recent years has individualisation of risks - though being on the political agenda for some time - resulted in institutionalization in labour market policy changes (a more "work first" approach being visible). This part of the policy story is to be told in part 5 of this report.

The organization of the public support arrangements is important as well. There is a *dual structure of social protection* in Denmark following the division between social assistance and social insurance. Only as to the question of unemployment benefits does Denmark have elements of social insurance introduced and maintained in the form of a so-called "Ghent"-based system, operating with unemployment insurance funds closely connected to the trade unions (and following the educational criteria for differentiation in trade union structure). The Ghent system is to be defined as a state-subsidized, but voluntary unemployment insurance system administered by trade unions⁶. From 1907, the state supported these unemployment insurance funds financially and from 1969/1970 the state also took over the financial risk of rising unemployment. Economic conjunctures heavily influence the real burden put on tax payers in this respect. The share of public funding depends on the total number of unemployed people and as this was high in the beginning of the 1990es, the public share rose to 80 percent of all expenditures, while it has fallen to less than 50 percent during the present economic upswing.

The unemployment insurance system is basically a state-run system. For non-members, people without unemployment insurance – that means people on social assistance – the administration is run by the municipalities (Damgaard 2003). Normally, strong service and assistance based system are not so easy to change as insurance based systems. But the Ghent system is having strong support from the trade unions which have an important recruitment channel opened this way; and therefore it is not that easy to re-institutionalize the system of unemployment benefits. Unionization is high in Denmark. More than 70 percent of all wage earners have joined a union (as is the case in Sweden and Finland who also have this Ghent system). The dual structure of the Danish system is further reflected in the activation policies of the last two decades, administratively organized in the two-tiered system: one run by the state-run employment service and one by the municipalities. Today 31 state recognised unemployment insurance funds exist, ten of which operate within specific occupational fields and only accepting people with the same educational background. Normally more backgrounds and occupational statuses are accepted. Three funds are cross-occupational, admitting employed persons from all occupational fields to be members.

The "non-insured" unemployed people must apply for *social assistance* (cash benefits) by the local municipality. These cash benefits have a ceiling but are fundamentally means-tested and the amount depends of the family situation of the individual. You always have to be ready to take up work in the open labour market in order to have social assistance as well as unemployment benefits, and from the very beginning there have been clear duties attached to the rights of the individual in the system. The universal welfare state does not simply give rights to all citizens – it

⁶ The name of the system stems from the Belgian town Ghent in Flanders where it was first introduced. In most countries, unions have taken the initiative to have unemployment insurance funds established because of the lack of compulsory unemployment insurance. Then governments have subsidized these funds on the condition that their resources are not used to finance strikes. Eligibility for the earnings-related unemployment benefits is de facto tied to trade union membership in all the Nordic countries, except Norway (where the system was abolished in 1938 and the state took over administration itself – also resulting in much lower unionization than in Sweden, Finland, and Denmark). A Ghent system may act as a valuable "selective incentive" for being a member of a trade union because it reduces the tendency for free-riding (Holmslund and Lindberg 1999). Partial erosion of the Ghent system is to be expected when independent unemployment insurance funds emerge. These will provide unemployment insurance without union membership; and especially people born after 1970 have shown a decreasing tendency to become union members (see also Ebbighausen and Visser 2000, Lind 2004, Vandaele, 2006, Kjellberg 2006).

also defines duties. As to members of the unemployment insurance funds there are no family concept operative in Denmark.

Legislation in relation to unemployment insurance and active labour market policy is set by the national government while legislation as to employment protection is largely left to the social partners. This implies that a special law is regulating the dismissal of white-collar workers, while rules for blue-collar workers are defined by collective agreements between the social partners (Madsen 2007). Generally, Denmark has a low level of job protection and this is a long-standing feature of the Danish labour market, being institutionally grounded by the so-called "September-compromise" from 1899, the first general collective agreement in the world. This agreement was the outcome of a big general strike in 1899, lasting for five months and having severe implications for all parts of society. In the final September-compromise, involving half of the total working force, the employers had to accept the trade unions as legitimate collective actors and counterpart in agreements but the compromise also defined the right for employers to hire and fire. The low level of job protection created by this original agreement has persisted until now. This situation is most different from the one in Sweden where you will find much better job protection due to legislation during the 1970es. The Danish industrial relations system (IR system) is most important in explaining arrangements operating now as core elements in the flexicurity system.

It is up to the sectoral agreements to define individual job protection and to set up rules as to dismissals. Therefore, you will find different regulations within branches of the Danish labour market⁷. *Collective agreements* do count very heavily, also in respect to payment and working conditions. In Denmark there is no political defined minimum wage; here again you have to look into the different sectoral agreements in order to find concrete regulations. The diversity of agreements and regulations implies that you have dispersion between different groups. For example, in the construction industry dismissal periods can be down to only one day while other blue-collar workers enjoy protection similar to white-collar workers⁸. In Denmark, it is also worth noting that you will find no big differences in regulations for people employed in the public and in the private sector. A very small minority, however, still exists in the public sector with special status of civil servants and with more protection.

Without understanding of the special Danish industrial relations system and its voluntary, collective regulations it will be difficult – if not impossible – to decode the Danish welfare system and the way political developments take place. There is a strong acceptance on the side of the politicians that allocation of values with respect to the labour market is a question to be answered largely by *the social partners*. Collective agreements regulate not only wages and working conditions but also questions which in other systems are handled by parliament, for example working time. The strong Danish industrial relations system has its own norms, procedures and regulations with strong traits of path dependency; but the social partners are also put to the test by the public authorities during recent years as to take over more responsibilities as to realizing political goals. This is for example to be seen with reference to integration of immigrants and refugees, inclusion of special groups within activation programmes, lifelong learning and financing of further training and education.

⁷ Regulations in practice give notice periods from 3 days to 6 months after 1-10 years of tenure. Differences goes with duration of employment and occupational group (see Madsen 2007a):

Duration of employment	1 year	5 years	10 years
Construction worker	3 days	5 days	5 days
Industrial worker	21 days	2 months	3 months
Salaried and public workers	3 months	4 months	6 months

⁸ This fact also makes it a bit tricky in the Danish case to use the well-known OECD method of aggregating different rules to a single measure for EPL-strictness (index for employment protection for ordinary employees with a permanent contract) within a single labour market.

From birth to death, the universal welfare state is supposed to give need oriented help to those who cannot take care of themselves. In 1891 an Act on Support in Old Age (for people over 60 years) was passed at the same time as poor relief was revised, ensuring that public help for medical care, midwifery services and burial would be provided. This was the historical start for universal help, firstly for the "deserving poor", later on also to other groups in society. Universal coverage as to public pension ("folkepension") was reached in 1956 in Denmark, built on the principle that everyone has the right to a pension irrespective of capital and income and independently of former employment and income. A basic income amount (now for people over 65) has successively been supplemented with supplementary statutory pensions (from 1964) and more means-tested elements (special support) in the state organized system. During the last 15-20 years important changes of the pension system has again taken place - but stability and slow changes of the system is dominant. Here you could talk of a silent revolution without big political interventions (Revue française des Affaires sociales 2003/2004). Policy drift has resulted in gradual expansions from the 1980es. The social partners – in Denmark called "the labour market organizations" - have contributed themselves through collective agreements to a development of more income related elements and to rapid growth in occupational collective pensions. In annex B the present pension system in Denmark is illustrated.

The tax system gives privileges to private pension arrangements as well and they have been expanded. A three pillar pension system combining tax financed public pensions, collective labour market pensions and private pension arrangements has been developed during the last 16 years. This proves that pension reforms are possible. Normally, they are perceived as having strong inbuilt inertia as they are long-term arrangements between generations. But the pragmatic small-step reforms in Denmark show that pension reforms are more than "elephants on the move".

There has been no central idea or big master plan behind the Danish welfare system. It is no fancy "Model" to be copied. Many actors have contributed to the development of the universal welfare system and the employment friendly approach to growth and welfare. The special relationship and interactions between the political system and the labour market system is to be dealt with in more detail in the rest of this report as this represents the key elements in the Danish flexicurity system; but general principles embedded in the institutionalizations can certainly be identified: economic growth, full employment, universalism and equality, "working line" (labour market related rights and duties) - and consultation (Jørgensen 2002, Magnusson et. al. 2008). The consensual decision making processes have been build on a corporatist attitude and concrete institutionalization of influence by the side of the social partners. Even before year 1900, the peak organizations on the side of employers and employees (organizations called "DA" (Danish Employers Confederation)) and "LO" (Danish Confederation of Trade Unions)) were invited by the state to take part in public administration. Path dependent developments with both administrative and political corporative institutionalizations have resulted in shared responsibilities as to designing and implementation of public policies. So the social partners have been close to the political and administrative system for many decades and the interplay and common policy decisions are most decisive as to an understanding of the Danish system.

The Danish IR system has more than two principal actors, traditionally the LO and the DA. Today more organizations at both sides of industry participate in collective bargaining and regulations. The collective agreements are to be considered more important than parliamentary decisions as to the regulation of the labour market. Decentralization of negotiations and agreements and the inclusion of more elements during the last 10-15 years have implied more flexibility and also more security in these private arrangements (Andersen and Mailand 2005, 2007). Besides wages and working conditions rights for workers to further training and education, co-determination, working time flexibility, pensions, protected jobs, and leave arrangements are examples of issues to be dealt with in collective agreements. At more levels the system secures

flexibility in labour regulation. Stronger multi-level regulation has not eroded or weakened the flexicurity system even if the decentral actors have gained stronger autonomy. Today more organizations than DA and LO are also participating in neo-corporatist arrangements and in tripartite negotiations. The social partners are key actors in relation to both voluntary and public political regulations.

Again you see the special ways in Denmark of bridging public and private interest representation, bridging public growth and welfare goals with the strategic interests of the social partners, and in bridging public authority programmes with privately directed organizations. Only on the basis of mutual trust and respect for responsibilities placed upon you does this system work. And sometimes it does not work very well. It is a kind of historically produced societal "partnership"; it is not simply network arrangements but responsible and lasting cooperation games, only having a politically defined institutional framing. Seen from abroad, seen from Brussels, and also seen in comparison with most other European systems, the Danish flexicurity system, however, is considered as well-functioning and as a big success. A judgement must be more informed, more detailed, more complex, and also highlighting negative aspects of the functioning of the system. But we will start with a presentation of the core units and their interrelationships in the system.

III. The core elements of the Danish flexicurity system

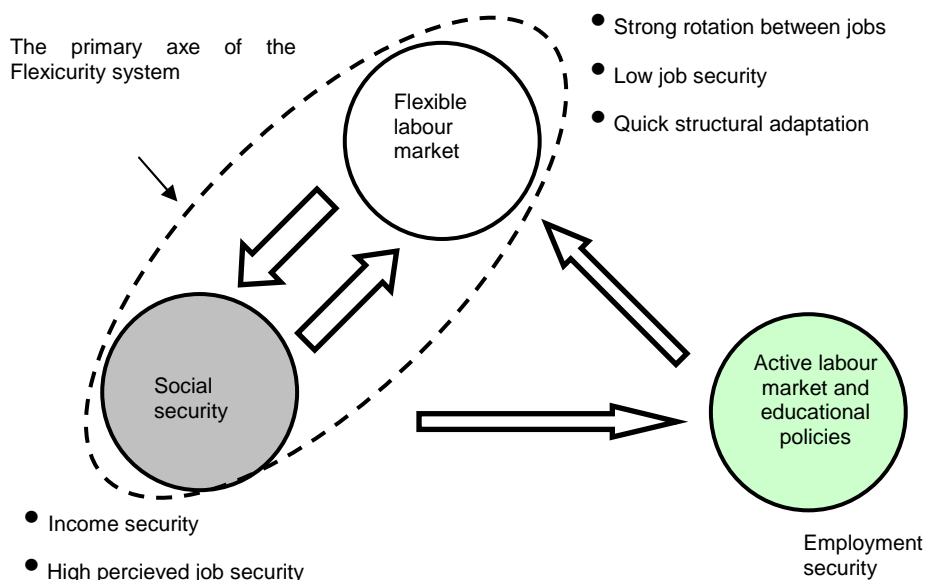
Full employment can not be reached by the help of general economic policies any longer; and international and European integration creates more and more limitations to the use of national economic policy-making. This is only one of the consequences of more comprehensive economic globalization. The interplay with active labour market and social policies is crucial and the selective efforts are gaining momentum and importance in the European context. Labour market policy (LMP) is to be understood as direct regulations by the side of the public authorities in processes and structures in the labour market in order to cope with unbalanced developments and unjust distributional results of the market processes. Regulations can be in the form of economic, legal, informational, and service-based programmes and the instruments combined in concrete policy programmes. The goal has, officially, been to secure full employment and better use of productive resources and to improve the productive potentials as well as realizing equity.

Economic efficiency as well as social justice is at stake and they must be bridged. This has Scandinavian documentation (Kongas and Palme 2005, Dølvik 2007, Magnusson et.al. 2009). You must stress the welfare elements embedded in the Scandinavian edition of active labour market policy; it is not a pure liberal policy strategy even though it lubricates market processes and improves mobility and productive use of resources. The policy became one of the pillars of the policy-mix that has been typical of the Scandinavian countries - and especially Sweden and Denmark - during the last four decades

Denmark has developed a policy mix since 1993/94, having industrial relations elements as well as political interventions in special relationships. Most important is also the universal welfare state framing.

The primary axe of this flexicurity arrangement is a high-mobile labour market and income security but equally supported by active labour market and educational policies. Together, they constitute one of the three pillars of a Danish "Golden Triangle" (OECD 2004, Wilthagen 2005, Madsen 2005, Bredgaard and Larsen 2005, Madsen 2002, 2005, 2006, 2007, Jørgensen 2006, EU Commission 2006, 2007). Graphically, you can see this represented in figure 6.

Figure 6
THE CORE ELEMENTS OF THE DANISH FLEXICURITY SYSTEM



Source: Own elaboration.

It is the interrelationships between the elements that count and account for the robust results achieved. Three general qualifications must be made in order to understand the processes operating between these elements and the consistency in the system: Firstly, the question of framing where the need for support from macro-economic policies is evident, secondly, the place and support of the social partners (or the labour market organizations as they are called in the Scandinavian countries) as central actors in the system, and, thirdly, the importance of communication patterns between and contact capabilities of actors at different levels of society. Often, the social partners are placed in pivotal positions in policy-making processes, and we cannot conduct an analysis without strong reference to the actions and strategies of them when trying to explain how flexicurity has been created and is functioning in Denmark.

Without the interplay with employment friendly macro economic policies, selective policy efforts will not have big chances of success. Both push and pull factors must be at work in order to have balanced growth and rising employment. And from 1994, Denmark has actually tried to "kick start" the economy with financial and tax reforms, helping domestic demand to raise. A policy-mix of general economic policies and fine-tuned labour market policies has been central to the Danish success since the mid-1990es (Jørgensen 2002, Dølvig 2007). Demand-driven growth and active LMP supported each other. When the economy recovered and the labour market situation changed, the macro economic steering could be corrected once again, not to let inflation go up. And the

exercise of synchronization succeeded which can be witnessed also by the fact that the Phillips curve for Denmark flattened out, simply (see annex A), despite growing employment and falling unemployment. The policy-mix seems to work well. Denmark is also having turned a deficit on the budget balances into the opposite and is having reduced public debt considerably. But this has to be regarded as a side effect of successful governance experiments and experiences within the flexicurity system, supported by welfare investments and sound general economic steering.

It is also important to stress the central position of the social partners, not only because of their own regulations through collective agreements – of huge importance in the Danish system – but also because of the central role as policy makers and implementation agents which they perform in the system. “Competitiveness” and substantial as well as procedural justice are basic to the policy efforts. This is also an argument for the Scandinavian welfare states to take an overarching responsibility for labour market policy developments as well as steering arrangements; but – as noted – the public authorities share their powers with the social partners and decentral actors (municipalities and representatives of civic society). The social partners are to be placed in key positions if you want cooperative adaptation to be produced as the labour market organizations have effective veto power positions within the systems.

Thirdly, contact capabilities – not only contract capabilities – are fundamental (Jørgensen 2002a, 2003, 2005, Swensson and Öberg 2002). At almost every level of Danish society short power distances have been developed, making easy access to decision-makers and other actors. A culture of cooperation and consensus is preserved by institutional and behavioural reproduction of common hands-on policies. Information, consultation and co-determination are strongly developed, also forming trustful relationships between actors over time. This constitutes the institutional putting of processes (Kristensen and Whitley 1997). In reality, no security for development of trust and cooperation is given; it is an open empirical question. No labour market regime is without conflict dimensions – a regime simply builds on conflict lines. But the ways actors find institutional frames for combating and finding solutions to changing problems are decisive as to cooperation and learning. This will be one of the fundamental lessons to be learned from Danish history and flexicurity strategies.

Historically, you can see partial breakdown of the consensual pattern bargaining in Denmark as well as in Sweden, Norway and Finland during the last three decades. But only by regaining ones' composure as to cooperative adaptation and Scandinavian governance principles, did the actors in the Scandinavian systems revitalize policy consensus (Magnusson et.al. 2008). The central requirements in the active labour market and educational policies call for cooperation between actors, for common understandings, deliberative processes and wise decision-making under a strong institutional set-up. Cooperation need to build on mutual recognition, mutual understanding, clearly defined goals and lasting incentives for the actors involved.

Political implications have to be noticed. Norms for wage formation have also changed during recent decades. From 1987, the social partners in Denmark have declared that they will take the macro-economic situation into consideration when negotiating wage increases. Besides this, decentralization of wage bargaining has enhanced the flexibility of wage formation and resulted in slower nominal wage increases.

In a Scandinavian context, labour market policy is deeply interrelated to the industrial relations system and the social partners because labour market regulation is a joint voluntary and public affair (Scheuer 1988, Elvander 2002, Dølvik 2007). One has to remember that the social partners regulate most of the questions related to pay, working conditions, working time and industrial rights, which in most other European systems are handled by Parliament, and the social partners have a strong or pivotal position too in relation to public policies. You can talk of a C-formula of Scandinavian labour market regimes: Collective agreements, corporatism and contacts.

The social partners are both privileged policy makers and policy takers. The relationships to general economic policies become – as noted - crucial as well when talking about the importance of active labour market and educational policies. As to the governance question of the public sector, more coordination of policies and practices at different levels has been called for since the 1980es. Coordination involves cognitive, behavioural and institutional aspects. No doubt, smaller countries have some advantages because of closeness and easy communication channels, but the size of the public sectors of the Scandinavian countries and their complex structure must also be taken into account. The fact is that Denmark has learned to reduce some of the control and coordination deficits which were obvious during the 1980s and early 1990s. Governance problems have been reduced endogenously (Magnusson et. al. 2008). This has contributed much to better functioning governance structures and to the Danish flexicurity success.

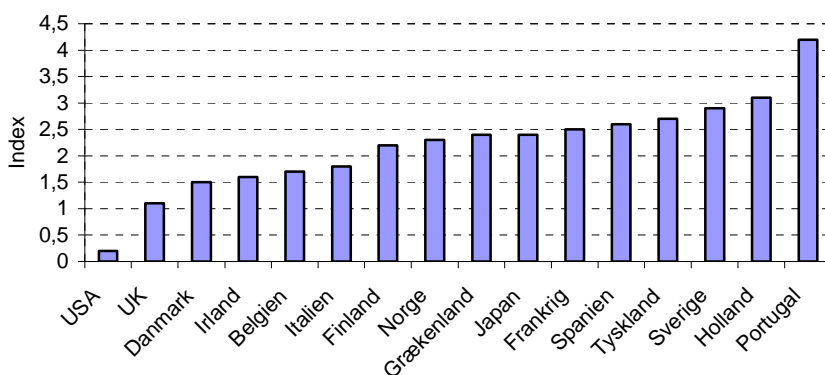
The primary axe of the system produces high numerical flexibility, high mobility, low job security but high incomes and employment security as well and it helps making quick and cooperative structural adaptation possible. Without the public policy measures, highlighted here by active LMP and educational policies, it would not be possible to reallocate resources and give wage earners the qualifications and motivations needed for bearing the costs of adaptation. Neither would it be possible to produce acceptance of the practices of coping with constant uncertainties this way. The collective representation of interests in the system on both employer and employee side is fundamental to the processes of joint decision-making and to the contact capabilities in and adaptation potentialities of the system.

IV. The functioning of the Danish system

Debates on flexibility during the last three decades have put pressure on existing regulatory frameworks all around Europe. Protection of workers with long tenures, regulations of dismissals and trade unions efforts of securing their members' job and rights have been accused for being obstacles to economic growth and adaptation. Institutional rigidities have been politically disputed. Deregulation has also been political goals for governments in many countries in the hope of improving the functioning and effectiveness of the labour market. Employers' claim for more freedom and stronger flexibility have, however, been met by efforts to preserve existing structures and rights for workers and more successfully so in the Northern part of Europe than in Anglo-Irish systems. Denmark has been especially interesting because of the liberal tradition of "hiring-and-firing", going back to the first ever general agreement in the world, the September Compromise from 1899 (Ibsen and Jørgensen 1979, Due et.al. 1994). Here the employers got the right to adjust manpower to the needs of the enterprise while the employee side got the right to be recognized and to make collective agreements. High numerical external flexibility and high mobility within the labour market has been the result, also because of an industrial structure with many small and medium-sized firms and high organization of wage earners in trade unions along educational lines

Seen comparatively, politicians in Denmark have made relatively few efforts to intervene in the self-regulation of the social partners through collective agreements and professional deals; and this balance between voluntaristic regulation and political regulation has implied a low level of job security for workers (see figure 7 below) and a high degree of freedom on behalf of the employers as to regulating employment. The result is the highest rate of turnover and the highest level of mobility in Europe. Here Denmark is to be grouped together with the USA and the UK, the liberal systems. In Sweden, the labour movement took chance of improving job security politically during the 1970es. Denmark stayed close to the Anglo-Saxon world in relation to low job security. It has been social security – high unemployment compensation rates and a decent level of unemployment benefits and social assistance – that has kept the Danish system on its Scandinavian welfare course.

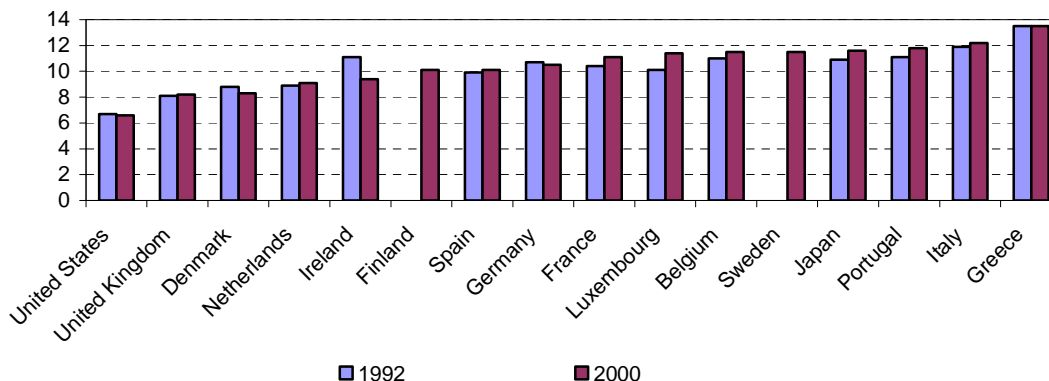
Figure 7
PROTECTION OF PEOPLE IN ORDINARY EMPLOYMENT IN SELECTED COUNTRIES, 2003



Source: OECD Employment outlook 2004.

Danes take up many jobs during life-time. And they even think this is good for themselves and for society in general! As a consequence, tenure is low in Denmark compared to the rest of Europe and to the other Scandinavian countries as well. It has even been lowered from the beginning of the 1990es while in most other countries it has actually been growing (Auer and Casez 2003 – see figure 8).

Figure 8
AVERAGE TENURE IN SELECTED EUROPEAN COUNTRIES, 1992-2000



Source: Auer & Casez, 2003.

Ireland is the other exception. These developments are not what you should have expected seen on the basis of the strong demands for mere flexibility within the labour market during more decades. But more continuous developments exist; not everything has become "flexible" and changing. Stability persists. This also goes with the high Danish numerical flexibility. Almost every third person within the Danish labour market is shifting employment each year. The high rate of turnover and shifting of employment is documented in table 3.

Table 3
JOB TURNOVER AND SHIFT OF EMPLOYMENT IN DENMARK, 2001

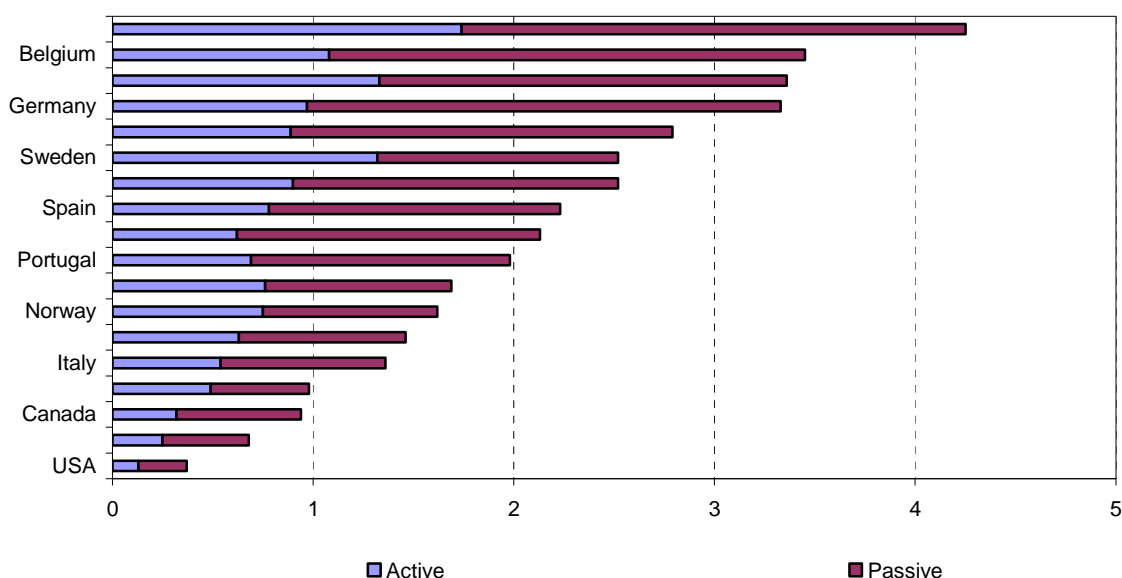
	Number of jobs/ employment	Number of jobs/ employment
Job turnover	Number of jobs	Percentage
Job creation	285 000	12,1
Job destruction	266 000	11,4
Shift of employment	Number of persons	Percentage
New jobs	736 000	30,8
Dismissals	714 000	30,2
Number of wage earners	2 379 000	

Source: AEradet on behalf of IDA.

Denmark is special in having liberal traditions as to the flexibility element and Scandinavian welfare state traditions as to security. A hybrid employment system, you can say. High mobility has been important for many years also because of the fact that Denmark and the other Scandinavian countries are open economies in need of quick adaptation and innovative organization of work. Dominance of small and medium sized enterprises contributes to a readiness on the side of workers for job shifts and transitions within the labour market important. Craft traditions and common skills and qualification priorities have facilitated the flexible labour market. Internal labour markets are seldom seen in Denmark because of the predominance of small and medium-sized enterprises in the industrial structure. And with lower entry barriers at the enterprise level it is easier to shift from one firm to another. The level of job turnover and mobility between jobs is high for most categories of employees within the Danish labour market. Even if the regulated job security is very low, the perceived job security might be higher. It is the subjective job and employment security that counts (Anderson and Pontusson 2007) and you have to decompose the different components of job and employment security.

For a long time, matching of unemployed persons and job openings has been a public issue and a policy goal in Denmark. Reforms during the 1960es installed a public employment service system ("AF-systemet") since 1969 operating with decentral offices all around the country and with the social partners in important steering positions since 1975. The place for LMP has been clear to all political parties and to the social partners as well even though the LMP did not get the same level of ambition and the same level of resources from the beginning as was the case in Sweden, the epi-centre of active LMP. Unemployment since the late 1970es and especially during the late 1980es and the beginning of the 1990es was the background for stronger political efforts to fight social exclusion and this implied to raise ambitions and resource mobilization. Since the end of the 1990es, the role has changed between Sweden and Denmark. Now Denmark is the European country using most money on LMP – both as to the active part and as to the passive one, which can be seen from figure 9.

Figure 9
EXPENDITURES OF LABOUR MARKET POLICY 2005
(Spending as percent of GDP)



Source: EU: Employment in Europe 2006.

Without doubt these heavy expenditures on active LMP are seen as productive social investments in Denmark. Even the present right wing government who took office in 2001 heavily supports strong investments in labour market and educational arrangements because without these the Danish flexicurity system would simply not be operational. Employers support the investment strategy of LMP too even if they do not want a social rationale to be constitutive for decision-making as to public policy. This calls for a deeper explanation of the role and functioning of active LMP in Denmark. This will be the discussion in section 5.

Danish employers do not only benefit from the hire-and-fire options and from very few political restrictions as to the licence to operate but also from strong public policy arrangements in labour market and welfare policies. The public employment service gives help to all kinds of employers, free of charge, in relation to both recruiting and further training and education of employees; and the costs of active LMP is placed only with the tax payers, e.g. the employees themselves. The way public welfare institutions functions with comprehensive child care and health care facilities, leisure-time facilities, educational arrangements and old peoples' homes, eldercare etcetera heavily supports women taking up full-time jobs in the open labour market. Full-time housewives have been growing rare in Denmark.

As Denmark and The Netherlands are so strongly used by the EU institutions as examples of well-functioning flexicurity systems, it will be worth noting that strong differences exist between those two kinds of systems. About 75 percent of all women in The Netherlands are employed on a part-time basis which is not the case in Denmark. And while the central government plays a decisive role in The Netherlands a broader governance structure is to be found in Denmark. Some of the principal differences between the two flexicurity systems are represented in table 4.

Table 4
PRINCIPAL DIFFERENCES BETWEEN DANISH AND DUTCH FLEXICURITY

The Netherlands	Denmark
Governmental regulation (for weak groups)	Governance without much government (for the whole system)
Social partners important	Social partners in pivotal positions (until 2007)
Part-time economy:	Full-time economy:
Gender based	Not gender-based
Many fixed-term contracts	Few fixed-term contracts
Job protection high	Job protection low
High social protection	High social protection

Source: Own elaboration.

It is worth stressing that the Dutch flexicurity policy of the government aims at improving flexibility for the firmly integrated workers while strengthening regulations as to employment and us of less integrated people and "problem groups" within the labour market (van Oorshot 2004). This is done solely by legislation. In Denmark, flexicurity arrangements do not have the same targeting as to "weak groups" but covers all persons and enterprises in the system. Regulative tools differ too and it is a joint public-private effort.

V. The importance of active labour market policy and lifelong learning strategies

As an important selective type of policy LMP is still fairly new on a European level, but due to the fact that general economic policies are becoming more tied up by internationalisation and EU claims, LMP has advanced on the political agenda. The Lisbon strategy from 2000 and, of course, the European Employment Strategy from 1997/1998 directly builds on labour market regulations as proposed by the Essen Summit, and in more European countries this has been a new and important experience contributing to changing policy content and procedures (Pascual and Magnusson 2007, Zeitlin and Pouchet 2005, Bredgaard and Larsen 2005, Barbier 2005, Jørgensen 2005, Galgóczi 2004, Pascual 2004, Watt 2004, Lind et.al. 2004, Magnusson and Stråth 2005). You could also say that the EU subsidiarity principle further helps national priorities. But Denmark has a longer history not only as to LMP, but especially as to *active* labour market and educational policies: these policies transcend the question of giving wage earners income security during unemployment and administrating peoples' unemployment "carriers" and addresses active help for individuals and firms; a balanced functioning of the labour market is at stake. The public sector has to monitor and regulate market processes and set up services in order to help job seekers getting back into the open labour market (eventually on a higher qualification level) when being dismissed and to help firms solve their manpower and qualification problems, thereby improving employment opportunities, productivity and mobility within the labour market.

Compatibility of growth and welfare objectives and interplay with the industrial relations system ought to bring a consensus platform for LMP. But this is not necessarily the case, on the contrary. It is difficult to imagine a field of government policies that is more controversial and infested with vested interests than industrial relations and LMP. The state is involved in regulations and interest struggles with fundamentally conflict-ridden structures and opposing actor strategies, especially from the side of capital and labour. The interrelations between class conflicts and regulatory needs are both reciprocal and controversial. The cleavages stir up socio-economic and political questions, and the diverging national (and regional/local) responses to these questions result in more or less stable paths to conflict resolution (Campbell, Hall, and Pedersen 2006). In addition to the horizontal interest conflicts there are vertical conflicts where state actors can identify problems and act contrary to regional and local actors. More sets of interest games are going on, and there are genetically and structurally instituted norms and values for managing and "resolving" conflicts.

Negotiated solutions have been cultivated though, giving institutional profile to the employment and labour market regimes. The Scandinavian systems are both conflict systems and conflict resolution systems (Jørgensen 2000, Stokke 1998) and they are publicly organized as to policy developments. The countries with the highest degree of institutionalisation of conflict resolution are normally also the countries with the best performance in terms of labour market development. It has been witnessed that proactive and coherent design of the contents and process sides of labour market policy is a prerequisite for robust results (Crouch 2005, Streech and Thelen 2005, Goetschy 2005, Scharpf and Schmidt 2000). Content, steering and financing are to be synchronised, but the selective effort simultaneously need to be supported by the general economic policy because the individual sector developments are embedded in a wider set of factors relating to the particular policy mix adopted and to economic fluctuations.

From the beginning of the 1990s, you could see international organizations as the OECD and the EU recommending "*activation*" as the core reform strategy for the labour markets of Europe. This was to be seen as part of the strategy for reforming the welfare state⁹. The level of unemployment benefits and social benefits were to be lowered which would bring more people to work. Stronger economic incentives to take up a job should be created, and in case people did not comply with the requirements they should be punished economically. The social systems and the labour market policy system should be "activated". Demands on the individual unemployed person should be tougher; individual obligations and duties should be stressed. The message was clear: use sticks more than carrots! By the help of reforms of the welfare support systems and creation of "*activation*" measures the whole system of social protection should be changed, reactivated (Barbier 2004, Lind, Jørgensen and Knudsen 2004, Pascual and Magnusson 2007). However, the European countries made quite different forms of activation systems and more concepts are being used to characterize these measures and incentive structures ("*workfare*", "*welfare to work*", "*insertion*" and so on).

Denmark and the other Scandinavian countries constitute the active corner of Europe as to LMP. And the Scandinavian countries all have a long tradition for work being a prerequisite for receiving economic compensation for the loss of income. Citizens in the Scandinavian countries have for a longer period of time been defined as "*workers*", backed up by the strong power position of the labour movement, especially in Sweden. The "*working line*" and active LMP is one of the most important pillars for having everyone participating in working life. Elements from the Protestant Ethics are clearly to be identified. The definition of (potentially) everyone participating

⁹ While the *retrenchment* reform ideas (Pierson 2001) have signalled a new policy direction with quantitative reductions in social spending and new definitions of social rights (benefit value, eligibility, and entitlement), *restructuring* ideas (Clasen 2005) address the policy profiles with more qualitative claims as to activation, innovation, shifts in public/private mixes, and shifts in conditionality mix (need, reciprocity, universalism). Activation is part of the latter welfare reform strategy.

in the labour market is not seen only as a public good and a measure to improve productivity simply, but also as a resource for tax revenues and a way of financing welfare. For the first part of the 20th Century, though, it was mostly men who took benefit from this consideration; but during the last three decades women participate on an equal basis in active working life. There is a moral principle behind the Scandinavian labour market policies: *rights and obligations go together*.

A generous income substitution level presupposes a strong work ethics: you have to be ready for taking up a job. Citizen rights can not be understood unless you also recognize the obligations of the individual. Income compensations are also calculated on the basis of earlier income from paid work. It is mostly within the policy field of pensions that you have a clear dominance of universal social rights. Now, as the active elements of LMP have been strengthened during recent years in Denmark this is mostly to be seen as a revival of the working line and qualification principles. Activation measures have meant no fundamental break as to the guiding principles of governance. However, the active profile of labour market and educational policies has been sharpened in relation to working line and you can see marginal reductions in income substitution levels for some groups, more tailor-made solutions and decentralization. This has introduced elements for an apparent "work first" approach. The municipalities have become a more important producer of services and organizer of activation measures – also in order to mobilize those people far away from the open labour market. Now, new common organizations of activation measures in which state and municipalities cooperate are being made in Denmark (from 2007). In this respect some harmonization with European developments might be recorded but the level of ambitions and the fundamental policy principles behind still differ.

The functioning of active LMP and educational policies in Denmark promises solutions to key present issues in European labour markets: raising labour productivity in general and especially by investing in skills and abilities of the labour force, reducing unemployment by the help of a mix of general employment friendly measures and targeted measures to reintegrate unemployed people into the open labour market, to encourage higher employment for those presently out of the labour market, that means those able to work, to increase mobility on both a geographical and a professional basis, which will help both firms and individuals and which can keep wage increases and inflation down, and – last but not least - to compensate and redistribute income, work and life chances. Readjustments and adaptation processes combating miss-match problems have been facilitated this way. And from the very beginning, the working line has been the current-carrying layer of labour market and qualification policies.

All of these objectives were part of the original contributions to active LMP having Sweden as the fore-runner. With the establishment of "Arbetsmarknadsstyrelsen" in 1948, an independent planning body for labour market policy with corporatist steering, labour market policy could be better organized and find legitimization. And from the early 1950es, more and more measures were developed in accordance with thoughts in the "*Rehn-Meidner-model*" (Hedborg and Meidner 1984), a way of modelling interventionist policies on the basis of general economic control of prices and acceptance of solidaristic wage policies of the trade unions – and having "creative destruction of capital" as a positive side effect. This is to be seen as a Schumpeterian way of letting unproductive firms watering down by competition. The model got accepted and it has been used both as an identity mark for the Swedish society ("folkehemmet", the People's Home) and for sectoral policy designs. Until mid 1990s, Sweden kept its leading position in this policy area but then Denmark took the lead position and has kept it at least since 2000. Social policy goals and economic developments have not been seen as opposites, on the contrary: more economic efficiency can go hand-in-hand with more welfare elements provided for citizens (Kongas and Palme 2005, Watt 2004). As mentioned, this is also part of the explanation why neo-liberal policies have not been implemented in Denmark in a similar way as has been the case in most other European countries during the last decades (Campbell and Pedersen 2001, Campbell, Hall and

Pedersen 2006). Institutionalization of interest representation, selective mechanisms build into the systems with the division of labour between politicians and social partners as important variable and path dependencies as to social and labour market policies are operational.

By extension of the considerations from the Rehn-Meidner model, we can come to a more comprehensive understanding of employment and LMP goals and functions (see also Rehn 1949, Meidner and Niklasson 1970, Hedborg and Meidner 1984, Meidner 1998, Milner and Wadensjö 2001). Brought to the most fundamental elements, active labour market policy consists today of four functions (Jørgensen 1985/86, Hansen et.al. 1997, Bredgaard et. al. 2003): allocation, qualification, activation and incomes security. Eventually, you could also add occupational health and safety; but this regulative function is not very well integrated into the active parts of LMP. The first three are the active functions. *Allocation* is fundamental and embedded in the way every modern economic system works: public help to bring demand and supply in balance. It is a kind of exchange of labour, securing that employers and wage earners can find each other as quick as possible by making the labour market transparent, giving guidance and information, and by helping firms and job seekers to be matched in a proper way. The transaction cost will be diminished, mismatch situations, bottle necks and quantitative disequilibrium are avoided. Seen qualitatively, the matching processes will improve the functioning of the labour market. The allocation function also brings strong political backing up of public employment services, also because it is a functional part of the operations of every market system.

During the last two decades, more and more decision makers have realized that the *qualification* structure of the labour force is a crucial factor in improving the competitiveness of the enterprises in a more and more knowledge driven and learning economy and for the individual wage earner it is of crucial importance in order to stay in the labour market with changing demands and job opportunities. The Lisbon strategy from 2000 and the revised edition of 2005 strongly build on this view, promoting life-long learning (LLL). LLL is now also one of the four core elements of the EU Flexicurity approach (EU Commission 2007). Qualifications, mostly formal ones, have become something that gives you access to jobs and to careers. Both on-the-job-training and formal learning is crucial and the publicly organized and financed further training and education system (CVT) in Denmark is decisive as to a well functioning economy in which small and medium-sized firms dominate. There will be a permanent underinvestment in the skills improvements of wage earners in case the public sector do not intervene and organize activities – which they do. Denmark has set-up a further education and vocational training system early on for both employed and unemployed people. A system was founded in 1960 for the non-skilled workers and for skilled workers an equally broad and comprehensive educational system was founded in 1965. Secondly, the unemployed persons also need to improve their qualifications and through “activation” measures education and further training has also been a central element in the programming and implementation of active LMP. A stronger ambition is to have life-long learning for all persons realized and this have been an official goal for more decades now. In fact Denmark is one of the European countries with most adult people taking part every year in further training and education. More than half of the labour force has been registered as being involved in some kind of education – public or private, job oriented or not job oriented, inside or outside working time – during the last year and 13 percent are concluding a CVT course each year.

Up till year 2000, the number of people and the financial resources spent on vocational training and education were rising but since there has been a stagnating development. Politically, efforts to try to change this trend again are now being made by the help of neo-corporatist arrangements. In 2006 and 2007 tripartite negotiations have resulted in new allocation of public money and joint efforts on the side of the social partners to bring lifelong learning to a stronger position within the system.

Giving unemployed people training and education is to be seen as part of this ambition, and by combining qualification measures for the unemployed with measures for employed people you might produce both immediate gains for the labour market and develop potentialities. However, a number of traditional economists still challenge this assessment, based on quantitative evaluations made on measurement of individual support and income situations (Kluve et.al. 2007)¹⁰. Others use other methodologies¹¹. The position of the author is that the quality of the *activation* offers is most important for peoples' positive motivation and for producing robust results. The philosophy behind activation is to place unemployed people in concrete arrangements related to employability that should give them better opportunities for being reintegrated into the open labour market – but at the same time work as a mechanism for achieving the “moral” socialization of people. Penalties might be applied if a claimant refuses to participate in such employment programmes. So there is a special dialectic between control and helping people to find work themselves or to have a decent life based on welfare arrangements. Here the Scandinavian countries again were early pioneers as to “activation” arrangements, helping transitions and change of occupations – but without weakening the level of social protection for the more vulnerable groups of unemployed as has been seen in many European countries. Rehabilitation and efforts to bring down sickness levels are becoming more and more important as the labour market is approaching full employment and more supply of labour is needed (Hviden and Johansson 2007). Then all productive resources in society are to be mobilized by the help of employment and labour market policies (Pascual and Magnusson 2007) and it is not only individuals who must be reactivated: it is a question of mobilizing the whole system of social protection (Barbier 2004).

High unemployment benefits and other forms of *income security* gives people a way of coping with temporary placement outside the labour market and help you not to lose faith in the future. By trying to reallocate resources this way, the public sector help the individual and his or her family to still function on a decent level, it keep up total demand in society, thereby securing total employment levels, and it prevents employers from having unjust and unacceptable exploitation developed. This passive part of labour market policy is, however, a necessary element

¹⁰ Economic analysis critical to the effects of high unemployment benefits have empirically also concentrated upon effects of unemployment benefits on labour market stocks (see for example Boeri and Macis 2008). As to a flexicurity position it is more relevant to focus on effects on flows. Here positive, sizable, and significant effects on job reallocation and worker's attitudes can be registered.

¹¹ Introducing massive LMP measures normally provoke discussion as to the net effects of these measures. Such programmes have both positive and negative effects on future employment possibilities of the individual and on the functioning of the labour market. Economists usually concentrate on three kinds of effects: 1) *the motivation effect*, implying that an unemployed person will seek jobs more actively immediately before participation in a mandatory activation programme. Measurement of this is done by calculating the probability of leaving unemployment before being obliged to participate in the activation arrangement. 2) *the qualification effect*, which is seen as the increase in the unemployed persons' qualifications during an activation programme, thereby improving the chance of finding a job afterwards in the open labour market. And 3) *the "lock-in effects"*, defined as possibility that an unemployed person will not actively be seeking jobs while taking part in a programme. The first and the second effects are the two most important ones to discuss.

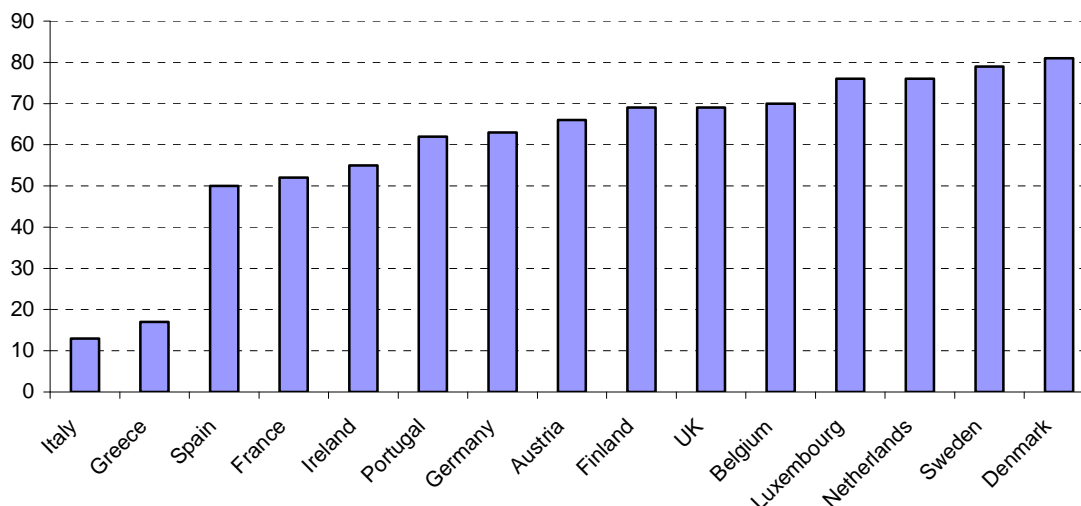
In Denmark, the Ministry of Labour (since the shift to a right-wing government in 2001: the Ministry of Employment) published in 2000 a study based on new, own databases, documenting that the chances for finding a job after participating in activation measures actually improved; employability was enhanced, measured as the reduction in the proportion of the year for which the individual person receive any form of transfer income. This (negative) measure of improvement of the employment situation of the individual is connected the qualification effects. Private job training has shown the best result this way (but perhaps also because of visitation). For public job training and labour market education there are also positive, but less significant results – fully in line with international studies (Martin 2000).

Other micro-based analysis using fix-effect methods confirms these findings (Geerdsen 2003, Rosholm and Svarer 2004), but some economists take for granted that only the motivation effects of activation is really important (DØR 2002, 2007). These people point to the Anglo-Saxian labour market model as the most efficient one (DØR 2007, p. 197) and they recommend lowering the benefit levels (ibid. p. 208). This again is equal to saying that you should reduce the quality of the activation programmes in order to have less attractive measure, forcing people to find a job themselves. This reduction of training and other elements in positive activation will do harm to the skills improvements and qualification effects of activation. (Parallel Dutch experiences with a more “Work First” based approach are discussed in Bunt et.al. 2008).

By focusing more on mid-term and long-term effects of activation and using a more macro-oriented approach, the Danish activation programmes are considered much more positive by other scholars, especially in international comparisons. Here Denmark is among the best performing nations without doubt (Madsen 2006).

in giving people "welfare security" (Auer and Gazier 2006) and to cope with flexibility. It is central to Danish flexicurity and it is also a crucial part of the European Social Model (Adnett and Hardy 2005, Jepsen and Pascual 2006). The relative high generosity of the Danish unemployment benefit system is documented in figure 10, indicating the net compensation rate as the highest in the EU area.

Figure 10
UNEMPLOYMENT BENEFIT LEVELS IN SELECTED COUNTRIES, NET COMPENSATION RATES 2002

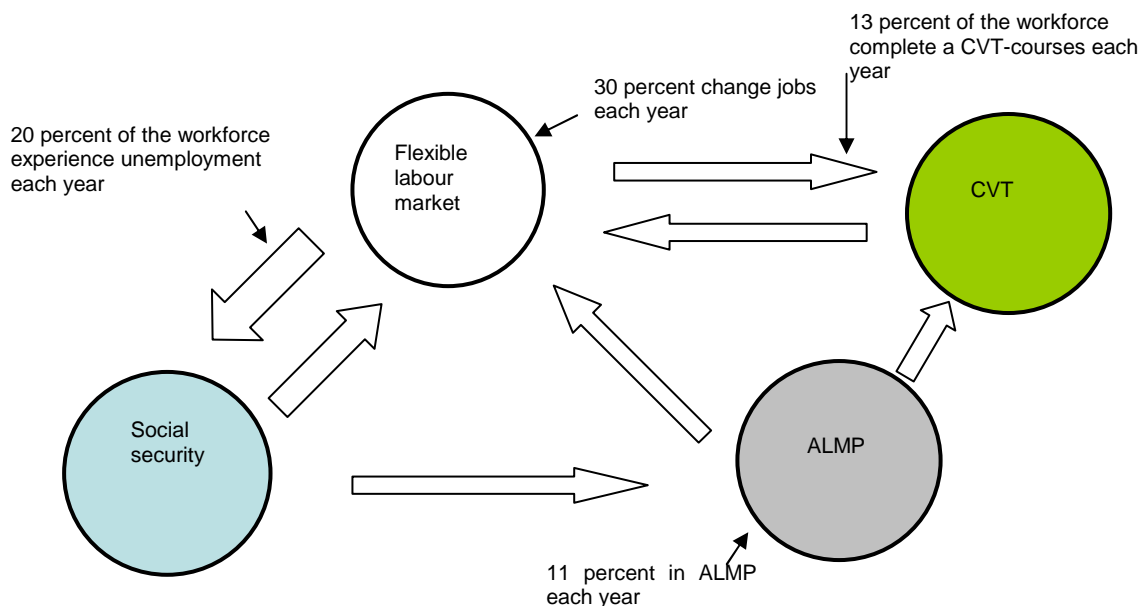


Source: OECD, 2002.

During recent years, the Danish compensation ratio has not been regulated in full accordance with increases in the general price and wage level. Therefore, the unemployed people have suffered a relative loss of about 10 percent during the last ten years (as to calculations by the Danish LO (2006)). Some marginal groups in Danish society – couples on social assistance and new immigrants – have seen their economic compensation being reduced even more. Political decisions as to ceiling of social assistance and a special low rate for “start help” for immigrants have since 2003 downsized the social security for these groups. This is not in accordance with the general and traditional trend in Danish labour market and welfare policy. We will return to this problem within the Danish system in section 7.

By adding the LLL arrangements in the form of continuous vocational training and education to the Danish flexicurity system, we can reformulate the core elements and their interrelationships. This means exchanging the “Golden triangle” of high mobility, income security and LMP with a fourth element of LLO. This new coordinate brings to wage earners the chance of having competences to be mobile within the labour market and during more years of their active working life: they will, hopefully, experience “*the security of the wings*” (Gösta Rehn). Flexibility on the side of the work force, high mobility and skills enhancements and education goes together. A life-course perspective is also brought into the picture by this extension of the “Golden triangle” (Transfer 2004). Graphically, the reformulated Danish flexicurity system will look like this (Bredgaard and Larsen 2007).

Figure 11

"THE GOLDEN QUADRANGLE": EXTENDED VERSION OF THE DANISH FLEXICURITY SYSTEM

Source: Own elaboration.

Now, we need to talk of the Danish flexicurity system as a “*Golden Quadrangle*”! Qualification elements and LLL strategies to produce “the security of the wings” do not only stem from education in active labour market policy but also – and fundamentally – from the Danish CVT system set-up for both employed and unemployed people. All active persons within the labour market are potentially participants in this well-run qualification system with a lot of local and regional educational institutions implementing lifelong learning strategies. The educational institutions have corporatist steering bodies as well. As the history of this CVT system goes back to the 1960es as does the history of the labour market policy in Denmark, the flexicurity system is not identical to the new active LMP of the 1990es (as often described in international contributions to the flexicurity literature). There is more to it – and more history to it than the last 15 years of policy reforms. More information is to be given in the next section. You can learn a lot from this history as to questions of organizing and changing content and processes.

VI. The historical development of active labour market policy in Denmark

Until the 1960es, LMP in Denmark was mostly an appendix to social policy, and the primary tasks were to fight unemployment and improve occupational health and safety via individual political initiatives. The picture changed after the mid-1950es when industrial peace no longer satisfied industrial needs. The industrial growth of the 1950s and 1960es demanded a mobile labour market and direct government interventions in the labour market were institutionalised. The 1960es became the formative period for LMP, first with a vocational training system for semi-skilled workers in 1960 and the institutionalisation of continued education of skilled workers in 1965. One of the most significant events in this connection was the creation of the public employment service (AF - *Arbejdsformidlingen*) in 1969 after many years of preparation in commissions.

Early on, LMP comprised elements of welfare and distribution. The very generous (according to international standards) and mostly government-financed support system was established in Denmark. It was based on needs – not considerations on private utility. In 1969, fairly wide frames for support were adopted. Unemployment benefits and the state's share of these benefits were raised, eligibility for insurance and unemployment benefits was eased, and high

compensation for loss of income secured. In return, the employers were exempted from disbursements for unemployment which the state took over. Consequently, as the employers never had to secure employment and support, the hiring and firing costs for businesses have been very low. Flexibility is highly rated. This could be called *a mix of high social protection and low job security*. Low job security implies high numerical flexibility within the Danish labour market. But the socialization of costs and public help for unemployed keeps employees from protecting their present job in negotiations and co-determination rounds. The strong interventionist policies and security definitions for wage earners facilitate the use of flexibility strategies by employers.

When LMP became an independent policy field in the 1960s, it somehow took in complementary elements of government "market lubrication" and welfare protection. Until the mid-1970s, politicians thought that economic growth and full employment were permanent and that concepts like crisis and mass unemployment were ready for the museum. But they learned: Danish unemployment rose from 2 percent of the labour force in 1973 to 7 percent at the end of the 1970s, and to approx. 9 percent in the 1980s. The emergence of mass unemployment meant that the existing support elements were put to serious use, and at the same time a number of selective measures were introduced to remedy some of the human costs of unemployment and to ensure a certain education of the "industrial reserve army" (Karl Marx). The policy raised its levels of ambition dramatically and redistributive elements were brought to the fore. Employment protection through activation measures giving a new right to stay in the unemployment insurance system and support became central elements in the LMP along with the economic crisis and growing unemployment. To keep people in the system combined with incomes support became the new main functions in the LMP. It was attempted to realise the former through government initiated additional employment via public subsidies to private and public employment projects and (briefly from 1983-85) public production (Dalsgaard 1985). Secondly, attempts were made to reduce the supply of work via an early retirement option, and the early retirement scheme was introduced in 1979. The unions were, of course, the most ardent advocates of these new initiatives because they gave their members new options.

When the AF and the municipalities took over administration of some of these schemes from 1978, a two-tier labour market system was institutionalised. The AF primarily serviced businesses and insured unemployed, and the municipalities had primary responsibility for welfare-oriented services and non-insured unemployed (Damgaard 2003). The primary function of the employment protection schemes is to find offers to unemployed in order they can maintain a connection to the labour market. However, due to the nature of the initiatives, it is very difficult to distinguish between passive welfare-oriented services (employment as a social measure and an attempt to affect the unemployment statistics) and active intervention (e.g. skill enhancement).

The general "passive" character of employment schemes relates to the tight association with the support side of the policy which becomes increasingly significant as unemployment grows. Mass unemployment thus placed a heavy burden on public expenditures. The high unemployment increased the incentive to become insured, and access to insurance was expanded until 1979. As noted, Denmark has a Ghent system of unemployment insurance dating back to 1907 with strong public financial support. This system operates with formally independent unemployment insurance funds but with close ties to the trade unions, giving these an easy recruitment situation. Those countries having a Ghent system: Sweden, Finland, Belgium, and Denmark are also those countries with the highest unionization. More than 80 percent of all wage earners in Denmark were members of the system in the mid-1990es.

From 1970, this was a very generous system: after one year's membership of the unemployment insurance system (*a-kasse*), the unemployed were entitled to up to 90 percent of former income. Ceiling, however, effectively reduced the real replacement rate. The employment schemes were instrumental in keeping the majority of the unemployed in the insurance system. Clearly, this was a neglect of the working line principle. More political conflicts were unavoidable. The expansion of the employment schemes in the 1970es was a result of political compromises in which tight fiscal policy

causing higher unemployment was compensated by more employment packages. Also the welfare protection system was expanded in relation to individual employees. As some of the few countries, the Scandinavian ones even increased unionization during the crisis because of the association with the insurance system (Ebbighausen and Visser 2002, Lind 2004). During the last years falling membership is as noted to be witnessed also in The Scandinavian countries.

Employment protection and the expansive insurance system have been controversial; and for several reasons. First and foremost, the employers have criticised the social policy elements that have been introduced in LMP via the employment policy. Partly in relation to what must be defined as tasks for the public employment system (the "AF-system"), partly - and not least - in relation to a common neo-classical inspired argument that because the unemployed persons' incentive to find work becomes too small, the wage factor loses some of its weight in creating a balanced labour market. In an international perspective, the latter argument about reducing the support systems has not had a great impact on the policy pursued. But in the mid-1980es it was attempted politically to shift focus away from the employment protection schemes in AF's task performance. In the mid-1980es, the bourgeois government therefore tried to subordinate tasks that were motivated by distributive policies to the service-oriented matching tasks. The open conflicts and reorientations of the 1980es were mostly seen in connection with the way the labour market systems prioritised their functions.

Nobody really questioned the fact that LMP contains both economic and welfare political elements. The expanded employment schemes and the support system were not changed significantly. Education and skills enhancement were introduced as more central elements in the labour market policy of the late 1980es. Education soon became the new mantra for employed as well as unemployed people. Lifelong learning was to be implemented for all wage earners. Continuing education and supplementary training would make the labour force even more flexible in the labour market. In labour market policy, it started in 1985 when employment schemes were supplemented with an educational offer scheme (later called "arbejdstilbudsordningen", or "ATB"). Unemployed people without qualifying education were trained in between the employment periods. The decision to upgrade resources for education and skills enhancement could also be interpreted as an attempt to make the employment scheme less passive. It is interesting to notice that the policy was made more active via skill-related initiatives and not through cuts in the employment offers and support – and this change took place in a period with economic crises and rising unemployment. The historical compromise from the 1960es to balance labour market flexibility with social security protection for wage earners was confirmed and redefined - even under a bourgeois regime.

The policy profile remained intact until the early 1990es. Internationally, a new discourse calling for individualization of risks was to be seen from the late 1980es (Pascual Serrano 2004) and a little later it also found Danish introduction. But the corresponding concrete policy results did not really materialize. Another kind of change was underway, however. The official start signal was a White Paper on the Structural Problems within the Labour Market (Arbejdsministeriet 1989), and it was continued in several commissions. The practical changes followed a different course. The first signs of change in the policy came from another quarter, namely from social policy and municipal initiatives for non-insured people. In 1989/1990, the minister of social affairs introduced *activation* as a new concept in the fight against unemployment. It happened via the "youth benefit" for non-insured 18-19 year olds in 1990, and with the "activation package" from May 1992 it was expanded to cover those less than 25 years of age. It was thus the municipalities that introduced an activation concept - a mix of obligation to work and skill enhancement - to young, non-insured unemployed (Bredgaard and Jørgensen 1999). The skills enhancement element had a central position, and legislation made it possible to plan the activation offers according to the individual's needs. Metaphorically, committee reports and discourses have endorsed the New Labour rhetoric about replacing a safety net model with a trampoline model. The policy has been made more active via a more individual and tailor-made skill enhancement effort and a reduction in the insurance period from 1994 with a new LMP reform. This need-oriented activation effort would be realised through radical regionalisation, including strengthened regional corporatist bodies, and via the introduction of individual action plans that

would describe the activation process and function as a contract between the labour market system and the unemployed individual. It has worked as can be seen from unemployment figures and fewer unbalances in the labour market.

A governmental change in early 1993 quickly paved the way for the *new LMP reform* to be implemented from 1994. Unemployment had set new records. The new Social Democratic-led government created a new type of labour market "deal". From a period with fiscal tightening and a politically accepted high unemployment which was compensated with far-reaching protection systems (administered by the unions), a leap was made to expansive fiscal policy, genuine and early individual training of unemployed and new regionalised, corporatist steering arrangements. On the other hand, the almost "sacred" protection systems were attacked with shorter insurance period, tougher availability assessments, and obligatory activation. In combination with the reform, leave schemes partially institutionalise the idea of exiting the labour market on public support. Leave for up to one year for sabbaticals, child care and education and with continued unemployment benefits (only 80% for the sabbatical scheme) were introduced in order to reduce the labour supply. This right applied to employed as well as unemployed. The favourable conditions for taking leave were reduced significantly during the 1990s, and sabbatical leave was abolished after only a few years.

This reform from 1994 reorganised the LMP both in terms of contents and steering. In terms of contents, a need-oriented approach replaced the former rule-governed activation effort. Hence, where certain types of activation measures were offered at specific points in the individual's unemployment period, diverse activation offers could now be made at any time during the unemployment period, according to the needs of the jobless person and of the local or regional labour market. The effort was tailor-made in relation to the problem structure, based on the individual action plan. Education and job training were the most important offers. A promising instrument like job rotation was also applied, and here efforts for jobless would be combined with training of already employed. The general benefit level remained unchanged, but the right to unemployment benefits could no longer be extended via activation or employment schemes (also counteracting municipal speculation in financial misuse of the old system). The maximum period in the insurance system before was seven years, with the possibility of an extension of two years' leave. This was reduced to first five (1996) and then to four years (2000).

If it is relevant to talk about two directions for a strategy that aims to increase the incentive of the unemployed to accept work via disciplinary elements and a strategy aimed at training the unemployed so that they can re-enter the labour market, then the policy is going in direction of the last one (Madsen 1999, Hansen et.al. 1997). The active labour market policy has caused a shift from benefit-based social efforts to more social integration and offensive efforts with tailor-made arrangements. There was a greater emphasis on an active policy where the ambition is to encourage a new behaviour among the jobless people. At the same time, the rights structure that was associated with the passive version has been supplemented with obligations for the individual unemployed. Everybody has to be active – the working line is fundamental. And the qualification effects of activation were to dominate the motivation effects of being placed in activation.

The Danish 1994 reform was adjusted three times in the remainder of the decade. Each reform was a step towards a less activist approach at the regional and local level. The regional corporatist bodies lost some of their competence in connection with, for example, a more statutory mandatory activation (and thus less need orientation). Other effects are restricted access to the unemployment benefit system and tougher availability assessments. The municipal activation duty was legislatively expanded to include all non-insured, and an option to reduce cash benefits for truants was introduced. Also the possibilities and conditions for leave were reduced significantly. Target groups were broadened and activation made more compulsory. From the start of the activation offensive, the public sector has acted as employer of last resort. The private sector never delivered the number of job training offers expected. The state and the

municipalities have had to create a lot of additional types of jobs and more kinds of job training facilities to carry out this important task.

You might like to ask what are the differences between this strategy for public intervention in the labour market (state-driven strategy) on one side and neo-classical inspired market solutions on the other? More observers have categorised the Danish labour market policy as an offensive "workfare" strategy (Cox 1998, Torfing 1999, 2004). Despite certain "workfare"-inspired elements, it is more than doubtful whether the Danish policy really fits in the category, at least in a narrow sense as a punishment based activation strategy. It is doubtful for several reasons: The historically constructed welfare systems in the area of Danish labour market policy are still very developed according to international standards. And despite close links, the benefit system is not linked exclusively to quid pro quo in the form of work requirements, and the disciplining effects are also toned down. For example, there have been no substantial discussions about reducing the unemployment benefit level since the political discussion before the labour market reform in the beginning of the 1990es. This was not politically correct at the time, and it is still difficult to propose the use of German "Hartz reform" recipes. The changes only applied to the length of the benefit period and a stricter availability requirement. That means that a low wage strategy initiated via reductions of the unemployment benefit level has been seen as politically unacceptable. The actors agreed on an offensive strategy: activation instead of reductions (up till 2003). The LMP strongly emphasises *training and education of employed as well as unemployed* as noted. Continued education and vocational training has been operational since the 1960es, as noted, for all groups and with high ambitions and public institutional support. Protected mobility is being created for the wage earner and they will feel employment security being created: "*the security of the wings*" (Gösta Rehn). Mobility and employability of workers are being enhanced this way. Equipped with the right competences you will not fear to experience shorter periods of unemployment because your "employability" is high.

The system functions not only to cover an immediate demand for labour power, but also to stress a more long-term strategy because the general qualifications of the labour force has a dynamic effect on the trade composition and productivity, and thus also on flexibility in establishing different types of trades. The formula has been: improve skills rather than increase flexibility. Training and education rather than work in return for benefits! However, the newest 2003 reform did bring more "work first" elements into the policy. Finally, the training efforts can also be seen as an element in social integration. It is important to stress that the unemployed have rights in this context: the availability requirement is accompanied by *a right to an individual job plan and activation*. Changes in 2003 again reduced the role of qualitative activation offers and immediate job placement was given priority. Shortest possible way to a job and in the quickest possible form has been stressed again and again by the present government as the policy choice. This clearly is a "work first" approach now being integrated into the Danish activation system and it is another kind of logic than the one prevailing during the 1990es. Now, threats – or motivation effects of activation – are to dominate qualification effects as to the government. But not all municipalities and regional bodies agreed.

The policy of the 1990es did work well. However, seen on the sectoral level, the Danish efforts have never had the same effects of "creative destruction of capital" (Schumpeter) as has been the case in Sweden, also because LMP in Denmark originally was more narrowly constructed, more adaptation oriented and without strong interplay with other sectoral policies. This has traditionally weakened the policy-mix and together with the lack of responsibilities placed on the employers this has given the Danish employment and labour market regime a much more liberal colour than is the case in the other Scandinavian countries. Next, the interplay between the labour market policy system and the CVT-system has been crucial for securing both skills and motivation. The new policy efforts did produce positive results reducing unemployment, raising employment and helping firms to solve their manpower problems.

As stated, a right wing government took office in Denmark in late 2001. In 2002/2003 the government succeeded in having a political majority, including the Social Democrats, supporting changes in LMP. The reform was called "More people to work", substitution longer activation measures by successive

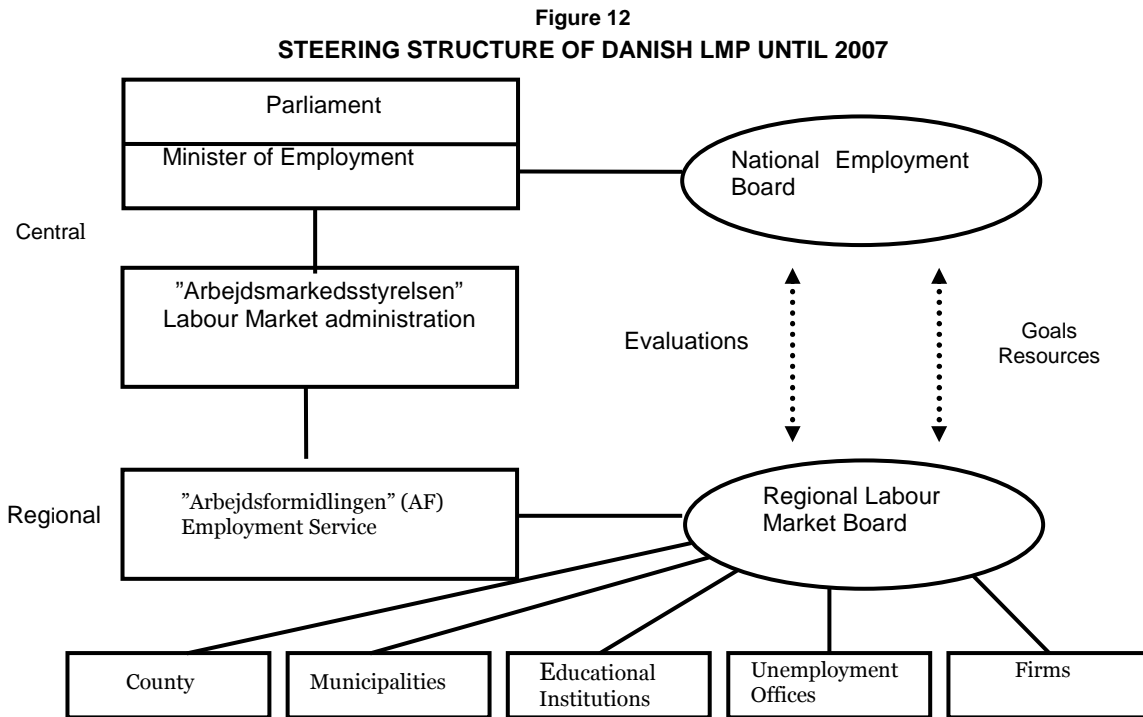
contacts and talks with unemployed as to firm time tables, and introducing "other actors" - that means privatisation - in implementation of the policy, and in reducing the share of education in activation measures to 50 percent. The result has been more creaming and parking of unemployed people - and a re-regulation of processes, in reality more bureaucracy it seems (Bredgaard and Larsen 2005). The instruments to use were reduced to three: a) guidance, training, and education, b) practical introduction, and c) wage subsidies. From 2004, unemployed people have also been classified according to five groups of "matching" categories. This last visitation system is imitated from the Dutch system (having only four categories).

"More people to work" was not announced as a break with the former policy, but in reality it slowly changed the policy profile, the content of the work, and the activities. The municipalities and the AF were to develop "a common language", it was said; it soon became more than this. From 1.1.2007 there is a *total rearrangement of the steering structure*: integrated job centres for both insured and non-insured unemployed - formed after policy transfer from the Netherlands - organize labour market activities together with the "other actors" (mostly private firms), having municipalities taking the lead within a frame of a two-tier system with respect to benefits. The employer organizations and the trade unions were strongly against this "municipalization" of labour market policy, but their common protests were not accepted by the government.

A recalibration of the steering structure has been orchestrated. The social partners are no longer in pivotal positions in the steering bodies. The regional labour market boards are transformed into monitoring bodies only, but municipalities - especially bigger ones - will clearly become important players in the game. The social partners will still have a say as to the degree of use of "other actors", but they will no longer be policy-makers like they used to be. This has repercussions as to implementation and legitimization of policies. You can fear this will reduce motivation and commitment from the side of employers and trade union representatives to such a degree that it can threaten Danish flexicurity (Jørgensen 2006). Special "problem groups" have now also experienced reductions in benefit levels (people on social assistance and immigrants and refugees). A change of policy content and an abrupt change of steering processes will form a path breaking point as to active LMP - and to fundamental principles of the universal rights and equality principle and the dialogue and consultation principle. To foreigners this might look very strange as it was the policy arrangements from 1994 that brought international awareness of the winning potential of the Danish labour market regime!

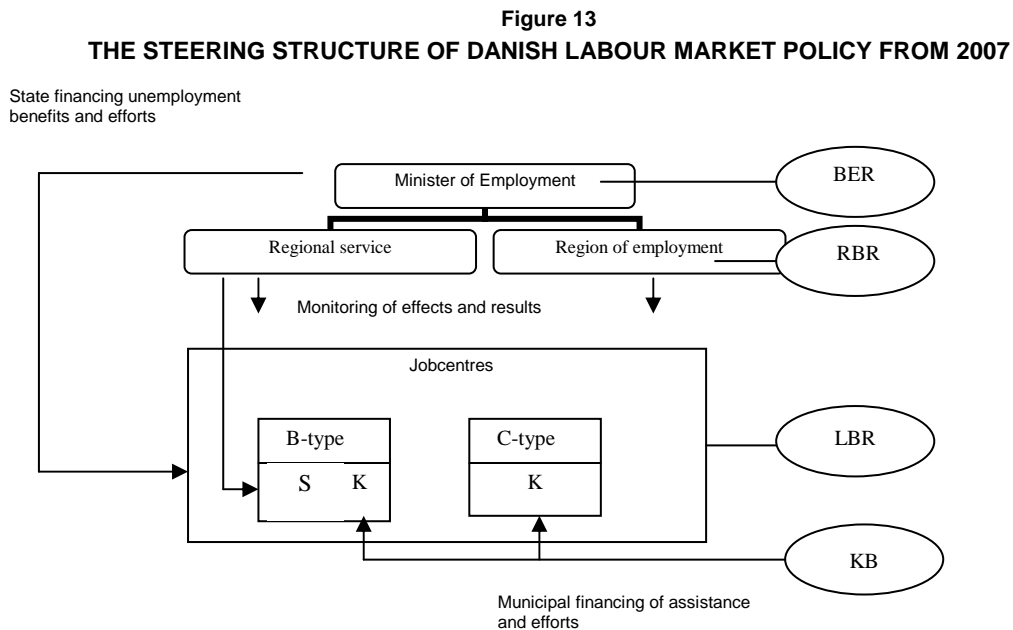
Corporatism is deeply rooted in a long history - of more than 100 years in Denmark - and just institutions matters (Rothstein 1998, Larsen 2005). The corporatist structures in the labour market policy field are older than the labour market policy and CVT-policies themselves. The development of regulatory policies to counter problems in the labour market after WW II also has given the social partners important new roles in relation to the state. The industrial relations' traditions of autonomy for the parties have been redefined in relation to increased government regulation and a significant reinforcement of the corporatist bodies via new competences took place in 1993/1994. A National Labour board (LAR - *Landsarbejdsråd*) and 14 regional labour market boards (RAR - *regionale arbejdsmarkedsråd*) were set up. With increased competence, LAR became direct advisor to the minister. On the regional level, the increased competence of RAR meant that they had to give priorities and to scale the effort in the form of, e.g. target groups and activation tools (job training, education, etc.); they had to determine goal and performance requirements for the effort.

The public employment office (AF) gave service to the boards and assumed the function of "main executor" of the effort. With the new reform of 2007, the role of the AF is fundamentally altered. Implementation of LMP, however, can occur only in coordination with regional enterprises, counties, municipalities, unemployment offices and educational institutions. The basis of the labour market policy effort in terms of steering is thus network coordination where both social (horizontal) and institutional (vertical) forms are at work. The Danish case is instructive as to the public benefits of corporatism during the period 1994-2006. The "old" steering structure of LMP looked like this:



Source: Own elaboration.

From 1.1.2007, the basis of the Danish flexicurity system is less secure with 91 small job centres operating with a hybrid character and without the institutional support and both output and input legitimacy produced by the social partners. At the same time, decentralization and centralization is taking place while the social partners are placed in less important positions. Now they are only part of advisory boards instead of being part of public policy-making and implementation bodies (the National Employment Board and 14 Regional Labour Market Boards). The new steering structure of Danish LMP looks like this (as from 2007):



Source: Own elaboration.

"BER" stands for the National Employment Board, "RBR" for Regional Employment Boards, "LBR" for Local Employment Boards, and "KB" is an abbreviation of "Kommunalbestyrelsen" (The Municipality Council). "S" is a sign for state-led administration and "K" for municipal-led administration. No "A"-type of jobcentres has been created as planned, to be run by the state only. 77 of the jobcentres have a shared leadership: 1 from the side of the state and 1 from the local municipality. 14 of out the 91 jobcentres are run exclusively by the municipalities as an experiment. This new structure is in itself a big experiment and during 2009/2010 there will be an evaluation of the functioning of the new steering system. An internal governmental commission has been set up in 2008 in order to produce evaluations of the present system and to come up with new ideas as to renewal of the content and steering structure of LMP in 2009.

The most important changes in connection with the new structural reform are to be fixed in this form:

New structural reform 2007 as to LMP steering

Towards a one-tier system:

Joint entrance for all kinds of unemployed people in jobcentres

From 14 to only 4 regions:

From steering bodies to mostly monitoring agencies

From corporatist steering to state-municipality steering:

Reduced role of the social partners

- Strong, big, municipalities in pivotal positions
- More rule-based efforts
- More standardized measures
- Erosion of regionalized labour market policy
- The social partners without much power and motivation

The consequences of the radical change as to policy responsibilities, initiative, and decision-making competences – and that means policy processes at more levels - are still to be figured out. It is too early to come up with a clear assessment and conclusion; but the new arrangements do have a stronger state-led steering and monitoring function built in while the municipalities are in positions to make decentral policy choices that takes a more local and territorial perspective than a broader functional one. Tensions between the state and the decentral actors are unavoidable. Next, the municipalities have always operated at a distance to the individual firms, and employers fear that the municipalities will give priority to social considerations to the disadvantage of employment and enterprise services. A strong disciplinary approach towards people on social assistance is called for. To a large extent, trade union representatives share this concern of the employers. Clearly, tensions are endemic to the steering system - and this is also a potential threat to national LMP priorities.

VII. The dark side of the flexicurity arrangements

There is a dark side of the moon too. Most obviously, Denmark has not been very successful in reducing the number of people between 18 and 65 on public assistance and large groups are actually expelled from the labour market. Finally, poverty problems and gender mainstreaming might also be partial – but less severe - problems.

The share of inactive adults between the age of 16 and 64 is still almost 25; and the groups forming this percentage have been remarkably stable during the last twenty years, even during several years of a booming economy and many job openings. However, the high demand for manpower during the last two years has given more people on social assistance the chance of finding employment and a reduction of more than 10 percent has been reached during the last two years. But this is not the normal situation for those people; they stay most of the time outside the open labour market. It is a labour market regime that functions well for core groups and some people in transitional positions. Solidarity with those people outside "the Golden Quadrangle" might not be that big - not even with the extension of the system into more than a triangle! One reason for this is the fact that a highly dynamic labour market, involving many job shifts, continuously is testing the productivity of each individual employee. There is selection processes installed this way and some wage earners will experience to be expelled from the labour market gradually when not complying with the productivity criteria of the firms or public

authorities. Because of the few restrictions placed on employers in Denmark in regard to dismissals and lay-offs this risk becomes manifest in a large number of cases. Marginalization as a labour market problem can occur at the same time as bottleneck problems. This is now a prevailing situation in Denmark. There is a prize paid for the high level of efficiency of the labour market regime. But a high level of the adult population receiving transfer income is no Danish speciality; it is an internationally well-known phenomenon. The activation strategy in Denmark could, however, have been even more successful.

From the mid-1990es, under the Social Democratic-led governments, there were several shifts in welfare elements in the LMP: Introduction of activation requirements and tougher conditions for staying in the unemployment insurance system; introduction of activation requirements for non-insured unemployed and the option to reduce the benefits if the activation requirements are violated. The benefit level has not been changed, however, for core groups. The "working line" has been strengthened and the benefit period has been reduced to four years, which to international standards is still a very long period of time. But during recent years, the right wing government has reduced social assistance for immigrants and a ceiling of permanent social assistance has been introduced as well. In an international context, Danish LMP still belongs in the universal welfare category, but some fractures have appeared in the historically settled ideas of balancing welfare and economy in LMP. Particularly, if we look at some of the labour market problems Denmark is facing in connection with reintegration of highly marginalized groups and integration of refugees and immigrants on the labour market. Right here, there are some cracks in the Danish success: For example, persons who are not of Danish origin are excluded from participation in the labour market; only 47 percent of ethnic minorities are in employment (whilst 77 percent of the Danes). The attitude among employers and employees is very reserved as far as immigrant and refugee participation in the labour market - to put it diplomatically.

Lack of qualifications by newcomers –or lack of recognition of qualifications of immigrants– is part of the problem. Job and educational preferences based on cultures of the people themselves constitute another kind of problem, but surely discrimination within the Danish labour market is also to be found. Anti-discrimination legislation is rather weak in Denmark; actually weaker than in most other European countries. This is also due to the fact that the social partners themselves want to regulate employment relations and norm production. And the norms are not that favourable as to integration of immigrants and refugees. Also as a consequence of this private norm production, gender mainstreaming has not been heavily supported by the government or by the social partners since the 1970es and early 1980es when pressure came from the EU level.

Recently, the EU has again brought the question of gender mainstreaming of employment policies into the discussion of Danish flexicurity, arguing that there is "no gender mainstreaming in the Danish flexicurity model and no discussion or awareness of the cost of flexicurity and the possible hidden redistribution between the female-dominated public sector and the male-dominated private sector" (EU Commission 2008, p. 71). This both old and new topic might be difficult to put high on the political agenda as the situation of women in relation to the labour market generally is considered quite strong. And the documentation supplied by the EU Commission is until now not that convincing. However, the Danish flexicurity system does have some kind of gender bias.

As to social assistance, incomes levels have been reduced too during recent years for some of the groups of immigrants: a special "start help" for new immigrants and a ceiling of social assistance for families have put strong pressure on the universalistic principles of the Danish system, see table 5 (source: Jurainformation and own calculations).

Table 5
MONTHLY LEVEL OF TRANSFERS IN DENMARK, 2005

	Gross amount/month	Percentage of unemployment benefit level
Unemployment benefits	14.173 DKK (1905 Euro)	100
Peoples pension ('folkepension')	9.514 DKK (1279 Euro)	67
Social assistance	8.577 DKK (1153 Euro)	60
Start help	5.527 DKK (743 Euro)	39

Source: Own elaboration.

Flexicurity in Denmark is not restricted to groups in weak positions and income security is relatively broad; but there are differences as to levels of coverage. Table 5 shows that some groups within Danish society are not well covered by the public assistance system and thus by the flexicurity arrangements. In fact, a poverty trap might be visible for people on start help as to new analysis. Very few actually find new jobs this way.

Another problem with the flexicurity system is in a paradoxical way the high mobility in the labour market. This means that workers not only find new jobs in case on restructuring and closures but that they on a regular basis seek other jobs and occupations. This gives the enterprises and the public authorities a disincentive to invest heavily in further training and education because they can loose the investment. Underinvestment threatens. And that is why it is important to have strong public interventions as to securing education and CVT-courses.

A future problem might be the pressure on job and wage competition stemming from people entering the Danish labour market from Eastern European countries. The accession of eight new Eastern European states to the EU in 2004 has resulted in steady growth in the number of workers going to Denmark. Estimates are that up to 10 percent of the present labour force is coming from abroad; but most of these people still have Danish wage regulations. Social dumping is a fear on the side of the trade unions in case those new people are not unionized and thus having normal Danish wage and working conditions secured. Until now, this has been a marginal problem, but it might grow bigger in the future.

It goes without saying that the high costs for the public sector in running active LMP and educational policies is a problem addressed in political discussions. When using more than 4 percent of GDP on labour market measures –active and passive– it is understandable that discussions pop up as to the efficiency and effectiveness of the measures and the benefit levels. The relatively high income replacement rates might produce a risk of financial disincentives, and especially for low-income groups this will be a reality – as to the economic textbooks. However, it has been difficult to document the magnitude of the problem empirically in Denmark, and the authorities have heavily relied on early activation measures to counteract these potential problems. Until now there has been no serious attack on the unemployment benefit level with the exceptions mentioned above. In the short run it is unlikely that such a proposal would be accepted politically. This would also do harm to the balance between the elements in the system. In case of dramatically changing economic conjunctures, the cost of maintaining the high expenditure level might be challenged. Then, a political pressure to reduce active programmes cannot be precluded.

VIII. Policy lessons to be learned?

1. Collective learning processes

Labour market regimes are created historically in national welfare state framings. All markets are socially and institutionally embedded – but some are more strongly embedded than others. In the Scandinavian countries, a central role has been given to the social partners in setting policy priorities, in participating in (de)central programming and implementation, and in securing and evaluating results. In Denmark, the positive functions of the participation of the social partners in public policy making and implementation and in finding cooperative solutions to adaptation problems have been strongly stressed, especially during the 1990es. More than the logic of consequentiality is at work – also a logic of appropriateness (March and Olsen 1989). Governance is to be defined as those mechanisms and processes by which the behavioural regularities constituting institutions are maintained and enforced. Good governance is characterized by policies and policy communities in which cooperative games and successful adaptation is to be found, implying that the policy system is able to tackle uncertainties economically, politically, and socially.

The lesson which can be drawn from Danish experiences is clear: A policy must be both economically reasonable and politically and institutionally feasible. The arrangement must be seen as co-regulation. The Danish approach to good governance is cooperative adaptation and flexible regulation with both political-administrative regulations and voluntary regulations made by the social partners

through collective agreements and sectoral and local agreements as well. Administrative corporatism has many branches and is the current-carrying layer for many policy developments. Network cooperation is a necessary, but not a sufficient condition of successful policy developments. Collective intelligence, time, strategic management and standards for policy implementation and coordination are decisive. You can also put it this way: The solution to design problems lies in the processes themselves - in interaction, understanding and learning. This is a general policy lesson. But one has to remember that the political system is a third and important party in labour market regulation. The state has been active in creating conditions for Danish flexicurity and corporatism, defining:

- a differentiated set of institutions
- a coordinated policy-mix of general and selective policies
- norms and procedures for policy-making and implementation
- accountability rules, and
- monitoring and evaluation activities.

The flexicurity system, characterized by deliberative processes and robust results, operates by the help of a cooperative mood, organizational conditions, and intense interaction between public authorities and private interest organizations. More policy fields are involved in the co-regulation exercises of flexicurity, but rationality rests on the specific institutional conditions and the strategies of collective actors. Institutional complementarities are produced this way (that means cases in which the presence and operation of one institution increases the returns of the other).

But it cannot be denied that Danish LMP is based mostly on practical experience and the actors' power struggles. There is no single policy theory (Parsons 1995, Peters 1998) or master blueprint behind. A rational "matter of fact" approach to policy formation is cultivated, which is justified in more than one sense. The labour market changes according to economic circumstances and the unstable conditions call for varying types of efforts. Complex and constantly changing problems cannot be solved efficiently via permanent and detailed stipulations and administrative rule steering in a machine bureaucracy. Uncertainties must be distributed between groups, regions, municipalities and over time by the help of different means and strategies. Legitimacy problems of policies are also solved by the participation of the social partners. Collective learning is crucial. To understand Scandinavian labour market regimes and their current success, you have to look at the special cooperative way of balancing these considerations. In Denmark, employers have easy "hire and fire" options and the employees have income security and active, service-based help from the side of the state in order to be reintegrated into the labour market. This brings about employment security and labour market security in a wider welfare based understanding in case the efforts are successful. Further responsibilities are not put on the employers. A major reason for this is that many efforts have obtained institutional rooting, stability and legitimacy, among other things because the actors have learned over time to incorporate others' deliberate "rationality" in behaviour and experience formation. Another particular trait of LMP is the historically established acknowledgement of both economic and welfare political goals, and that a trade-off between the two is not obligatory. Central and decentral policy developments might also differ. Regional policy communities have developed. The policy style of broad participation by organisations and a collective culture has been created and you have seen new types of policy coalitions. More levels hold power positions and the social partners have veto points in the system. The social partners are in pivotal positions both in terms of political consultation and as agents of designing and implementing labour market policy. Both political and administrative corporatism has been strongly developed; but informal channels of influence have had stronger importance during the last two decades.

How is the tradition for consensus in voluntary labour market regulation and in public policy-making to be explained? In terms of strategic behaviour, the question is how one actor thinks the other actor thinks and acts - if the behaviour is consciously "rational". The key was that dominant factions on both employee and employer side began to count on the adversary's rational behaviour and common interest in regulated conditions. Confidence became a precondition for agreements as well as an outcome of the choices of action. Collective experiences on both sides settled as collective learning and consciousnesses, which first enabled the historical game of collective agreements. Faith and generalized trust in opponents and in rules must be present for institutions to last (Jørgensen 2002a, Rothstein 2003). Professional and political consciousness has shown that they are not short-lived, and the historically developed belief systems are therefore decisive. Formal institutions only carry weight and importance as long as the actors' "mental" and discretionary cards speak of trust in relation to these institutions. A parallel is insight from game theory, in which considerations about completely rational or irrational actors are irrelevant, however (see e.g. Scharpf 1998, Crouch 2005). It is thus important to examine what the compromise has developed into and how it is being used. The actors' strategic choices of action and their respective attempts at extracting a collective experience, i.e., create a collective history, are critical points.

Historically, the institutions established influence the actors' choices of action and ideas, which again creates a sort of feedback mechanism that, at a general level, reflects and strengthens the institutional regulations (Rothstein 2003, Pierson 2001). This special historical path is marked by *collective learning processes* and the resulting *collective memories* as well as *framed institutional set-ups*. Here we are addressing some of the sufficient conditions of the Danish flexicurity system. However, without conflicts, there would have been no serious experiences. The outcome of general agreements was a stable mechanism for securing order and regulated influence. Although later expansions of the system make it less likely that conflicts spiral out of control, there are still disputes. In Denmark, major labour disputes in 1925, 1931, 1956, 1963, 1973, 1985 and 1998 shocked not only the labour market, but also the political system. It is impossible to prevent social tension and open disputes completely, and only a potential threat of conflict will ensure genuine negotiations and a sense of responsibility on the side of actors. An element of gambling seems to be involved too. Counter power positions are institutionalised in the labour market and in the relation between organisations and state, and norms for conflict resolutions have been developed. So the compromise has deep historical roots in The Scandinavian countries (Svensson and Öberg 2002, Elvander 2002, Jørgensen 2002, Esping-Andersen 1999). The parties themselves uphold the principle of non-intervention by the state in industrial relations and collective agreements, mostly so in Denmark. But, as stated above, the state has become a decisive third party or actor in the labour market regimes besides providing popular welfare services and fundamental security to citizens.

Even though, the self-regulation of the social partners is far-reaching. The politicians have recognized that there are advantages by leaving the social partners in charge of labour agreements, contacts and contracts, and this creates favourable conditions for voluntaristic labour market regulation in the system. But a significant part of the labour market is de jure not covered in Denmark; the country has no *erga omnes* principle. The collective bargaining principle put the organisations at the forefront. The collective agreements have not been followed by supplementary legislation before 2002, making semi-dispositive legislation normal from this year on. In Denmark, the political-administration system is supportive, but not steering. Again we see that many relationships which are regulated via legislation in other countries (working hours, pension, etc.) are handled by the organisations themselves.

An industrial court system, originally set up in 1910, is also very much a product of the common understanding and vision of the social partners. Parliament may have prepared, decided

and implemented regulations in the form of legislation, but the system is based on the labour market organisations - both in terms of origin and implementation. They have a seat on the highest court within this "private" system, and they only are entitled to bring cases before the Industrial Court. They also conduct the cases - individual employees or employers cannot have their rights tested in court. Collective rights count. This distinguishes the system from that of most other European countries, and thus from legal proceedings in the EU. The old EU "community method" of regulative practices and Danish traditions do not fit nicely into each other. In this respect the Danish experiences are more in accordance with the "soft" method of open coordination ("OMC" – the Open Method of Coordination), used most strongly in the European Employment Strategy, but now also used as to pension, education and social inclusion by the EU institutions.

At the time of writing, the flexicurity system is perhaps not having macro-economic policies in strong support of the sectoral arrangements as taxes from 2008 have been reduced in order to support private consumption, and the municipalities have taken over responsibility for more groups within the labour market from 2007. Functional needs of the entire labour market might be disregarded. With the right wing governments' new "structural reform", implemented from 1.1.2007, the social partners have got a reduced role to play. It will also be a challenge to Danish flexicurity (Jørgensen 2006). The organizations themselves did not approve the changes made, but they try to continue to cooperate at more levels within the new structure. Processes might not be changed in such an abrupt way. The special policy-mix of general economic and selective policies (especially LMP and LLL-policies) from 1994 and the corporatist traditions do still influence the fundamental thinking and acting as to the content of efforts.

2. Security fosters labour market flexibility also in other contexts?

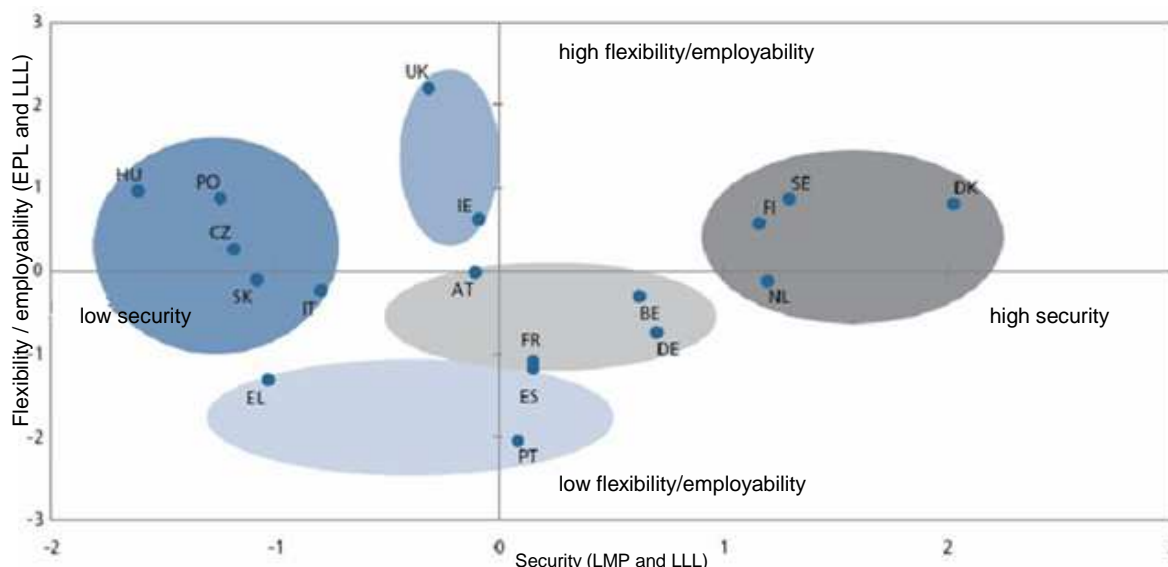
In the beginning of the 1990es, more observers, international organizations and academics as well, did not consider the Scandinavian welfare and labour market systems with strong social partners persistent at all (Wilensky 1985). The Scandinavian countries were portrayed as sclerotic, rigid obstacles to economic growth and competitiveness. Recommendations as to retrenchment and deregulation policies were put forward (Olsen 1990). Only a few years later, "the Scandinavian lights" were shining bright once again. The Scandinavian countries are amongst the best economic performers, good governance and labour market policies have combated unemployment, welfare state arrangements have been build out, and the there is no strong decline in unionization. The Danish system of industrial relations and public policies has shown remarkable adaptability and resilience and the cooperative adaptation strategies are now attracting international attention. From a narrow job security perspective a broader employment security focus has been developed, and an even more encompassing labour market security is at stake (Auer 2007). But are "the Scandinavian lights" able of shining for all European countries (European Policy Centre 2005) – and is Danish flexicurity relevant for the Latin American countries as well?

By combining economic growth and stability with high employment and generous welfare for the citizens through coordinated social and economic governance, Denmark has chosen a high-road to growth, competitiveness and social cohesion. No wonder more and more analyses and political recommendations take notice of the Danish experiences presented here. Scandinavian labour market and welfare arrangements have been attractive for some time. Now, as noted, Danish flexicurity has attained status as official European role model and during 2007 the European institutions have issued basic principles of flexicurity to which all EU member countries are supposed to correspond in the years to come. But real learning and policy transfer might be difficult in the short run. And it is impossible to export a whole system. The tendency is strong to

look abroad to see how other systems have responded to similar global trends and pressures labour market problems, to share ideas, to draw lessons and to bring foreign evidence of success to comply with domestic policy making traditions.

Analytically, few experts will deny that the Scandinavian countries are amongst the best performers in Europe now, economically as well as socially. At the moment, the discussion of flexibility and security is going top speed. The EU and also the OECD recognizes the flexicurity arrangements of Denmark and the other Scandinavian countries. In the "Employment in Europe 2006" report, the European Commission calculates country scores along flexibility and security, including a labour market policy and life-long learning index. The result is clear as can be seen from figure 14.

Figure 14
EUROPEAN GROUPS OF NATIONS AS TO FLEXICURITY INDICATORS



Sources DG EMPL calculations from Eurostat and OECD data.

Again you can discuss if it is correct to place the Netherlands – a gendered part-time economy – in the same group as the Scandinavian countries, but one thing is clear: High labour market security and a flexible labour market go together. Because of income security, welfare frames and concrete employment and educational help citizens are not afraid of changes but accept adaptation to new conditions. In a positive and flexible way they engage themselves in these processes, cope with uncertainties, and you will have economic progress and prosperity. In Denmark there is a strong appetite for welfare services and high taxes as well. Social investments pay off. This is the experience of Danish people and policy-makers. Generous welfare schemes and lack of strong economic incentives and sanctions are not simply to be blamed for bad labour market performance and unemployment – on the contrary. Important is the relationship between interventionist policies and "the working line" and qualification principle which has been reactivated together with other principles in the foundation of the governance approaches. Job openings, also a result of demand management, and activation are interrelated. Macro-economic policies, collective bargaining and solidaristic wage policies together with active LMP and welfare policies, designed and facilitated by the help of social dialogues, have created fruitful conditions for combating miss-match problems and securing high levels of employment for all groups. Now, more kinds of miss-match problems are to be found in the economy and especially in the public sector policies; but they are less gendered here than elsewhere.

One of the problem with "export" of Danish solutions to the employment and social problems of globalized economies is that social protection has always been a closed nation-state affair: solidarity and social justice pertain to closed communities (Ferrera 2005). Political cultures are mingling practices, values and language and national governments and communities still have difficulties in learning (Barbier 2007). The lack of public-spiritedness of the European citizens in Continental and Mediterranean countries, for example, clearly can be an obstacle to implementing flexicurity arrangements as it raises moral hazard problems. Policy diffusion is most unlikely to happen without national and local translation of ideas and principles¹².

Much could be learned from the Danish experiences seen from a strategic point of view. The different kinds of problems call for a *two-tier strategy*. As to general economic policy, *employment friendly policies* also controlling inflation are to be recommended but they have to be combined with other sectoral policies and especially *active LMP and educational policies (lifelong learning)*. These policies will conquer miss-match problems in the labour market, reallocate resources and prepare the working population to meet future employment and qualification demands. "The security of the wings" is fundamental to adaptation processes and a positive attitude of the wage earners. Open jobs and unemployed people have to be matched quickly and the qualification structure of the work force is crucial for productivity and adaptation. Strong numerical flexibility in a system may induce employers to invest less in vocational training and further education, thereby reducing the employment security of the employees. Then you need strong public engagement in organizing and financing educational measures. For unemployed people the labour market measures of the public sector offer ways of being in transitional positions in the move back into the open labour market. Activation is important when tailor-made efforts are made to combine individual profiles and needs of the local and regional labour market by the help of qualitative offers. Many long-term unemployed people simply do not react to economic incentives as they have other kinds of problems as well than just the lack of a job. They need specialized help. And those people will be needed in the future labour market – also because of the demographic changes and the coming lack of manpower in more branches and sectors. In Denmark it is employment security and not job security which is being promoted, and together with public guaranteed securities and services "labour market security" is installed. Outsourcing and too strong hire and fire policies of the firms might lead to greater insecurity and uncertainties in the future, lowering not only effective demand but also fertility and faith in a bright future. Fortunately, the present developments in Denmark and the other Scandinavian countries document increasing fertility rates and a strong, positive believe in the future by the employees – and the unemployed persons as well!

It is important to note that Denmark as the main course and as prime movers for growth and employment generally has chosen not to decrease levels of unemployment benefits – meaning lowering the reservation wage -, not to deregulate, and not to have welfare retrenchment policies implemented. (The recent changes in Sweden in 2007 with the right wing governments' radical cuts and changes of the unemployment benefit system do, however, contradict this tradition). The combinations of general and sectoral policies, the interplay with the industrial relations systems and the welfare state framing have until now been reached by the help of collective and deliberate decision-making processes (Magnusson et.al. 2008).

Trust between the social partners themselves and trust in national governance is a prerequisite – also for trust in a broader European project having full employment as a real policy goal. And trust is only to be developed in socially *institutionalized forms* in case collective actors learn to have a mutual interest in taking responsibility and having a social order established giving long-term benefits for all. *Learning and collective memories* are part of the success formula of the

¹² In reality, the EU has never seriously taken notice of cultures, and therefore the specificities of politics in the national settings have been ignored. This also brings to the EU the problem of legitimization and mass support of "Europeanization".

Scandinavian countries. The lessons were made early on in the industrial relations systems and they have until now shown potentials for adaptation and renewal too. This might not be the same situation in the future. Strong pressures and new problems are to be foreseen: the aging of the working force and falling trade union density, employers perhaps unwilling to play the same role as has been the case until now in the systems, social exclusion, EU-enlargement, low cost and wage competition, off-shoring of jobs and so on.

So today the real problems facing the Danish system are of quite another kind than the ones known on a European scale. It is also problems of future lack of supply within the labour market, miss-match problems as to qualifications on the side of unemployed persons and people on social assistance, growing welfare expectations amongst citizens, immigration and integration problems also in relation to regulation of own labour markets, high sick leave levels, and occupational health and safety problems. Just to mention a few of the problems. Some of them seem to be positive problems compared to the main European problems of today. And in a way they are. Qualitative elements have become just as important as quantitative balances and some of the old and well-known goal conflicts in public policies have been diminished or abandoned by the way governance has been designed and implemented in socially coordinated ways in Denmark. Most important perhaps: full employment was and is a primary policy goal in the Scandinavian context. This is not necessarily the case on a European level today. But the protected mobility of today might be less protected with growing European integration and strong low cost competition because of liberalization of services and immigration in the future.

The central lines of argumentation in this contribution go like this:

- Interaction and institutional coordination across policy areas and between different levels of society is crucial to social and economic governance aiming at securing full employment and a balanced labour market development. Social dialogues and compromises are processing policy adjustments and societal adaptation to changing environments and pressures.
- The core elements of the Danish approach have for a longer period of time been market-oriented and employment-friendly economic and industrial policies, collective bargaining and active and offensive labour market and educational policies, bringing skills and abilities of the working force in focus. The wage earners are to be flexible, skilled, mobile, and motivated all the time.
- And from the Danish experiences can be learned that public welfare policies bringing security for wage earners are crucial, also in removing conflict-ridden negotiation issues from the enterprise level and providing general conditions for flexibility arrangements. The universal welfare state and the collective agreements together give institutional protection of employees and opens flexibility opportunities for employers. Labour market security fosters flexibility.

The question of national conduction of the governance elements have been answered much better since the mid 1990s than was the case before. Severe economic crises in the late 1980s and the beginning of the 1990s were also caused by bad governance. The Danish history during the last two decades shows that globalization and Europeanization do not mean faith – it means the possibility of flexible and handsome governance at national and European level. In the Scandinavian countries, product market deregulation has gone hand-in-hand with inclusive and offensive labour market and welfare policies. Better functioning markets and adjustment processes have been combined and supported by social and redistributive policies through tax systems, social protection and public service production. Until recent years, Denmark has used a new policy-mix successfully. Good governance, simply!

The special Danish comparative advantage in relation to flexibility is the easy access to hiring and firing manpower by the employers and the socializing of cost by the tax payers together with active measures in LMP and social policies. The high numerical flexibility is only accepted on the basis of high

income security and strong educational and vocational training systems helping people to develop their qualifications and an active LMP set-up, giving people more tailor-made activation and qualitative offers. Qualification effects of activation have been more important than motivation effects. Employment security is essential and the dynamic factors for improving mobility and motivation are active and individualized labour market arrangements and lifelong learning – even though LLL does not solve all kinds of labour market problems (Watt 2005).

The political defined forms of security facilitate flexible adaptation. Employers are having flexibility and autonomy. By the help of institutional rooting of social compromises and policy renewals structural adaptation and innovation is possible. Some of the strategic and tactic potentialities of flexicurity actually are being used - and here broader lessons could be learned. This also goes with investments in labour market and social policies. Investing in people and their welfare is the most important and promising signal to foreign policy-makers from the Danish flexicurity system and the functional equivalents in the other Scandinavian labour market regimes. No simple "workfare" principle is accepted – and it would only do harm to the flexibility strategies of the employers. New LMP elements strengthening sanctions and immediate job placement introduced during recent years do, however, signal changes. But unemployed people should not have an offer they cannot refuse but an offer they will not refuse! Quality of offers and co-determination are essential. It is the protection of people, not jobs, - protection of work, not existing employment opportunities – that counts in the Danish case. In the European notion of flexicurity job creation is not stressed very much and the same goes with decent work. Corrections in this direction are needed and protected mobility, high income security and strong public policy efforts in balanced relationships are to give wage earners labour market security and trust in the future. To quote once again one of the founding fathers of the Swedish Rehn-Meidner-model, Gösta Rehn: this kind of arrangements will produce "*the security of the wings*" for people and foster mobility; and public welfare framing is needed as well. These kinds of security will facilitate better use of flexibility options.

The policy lesson is: Forms of security are decisive as to flexibility – it is not functioning the other way round! The political aim of having full employment will be strongly supported by a well functioning labour market regime capable of giving people capabilities and labour market security and in fostering cooperative adaptation. In this respect you can learn more lessons from the Danish arrangements and governance experiences, especially since the beginning of the 1990es. The European flexicurity discourses have already de-legitimized deregulation approaches – and this might be one of the most immediate political results to register to date.

Recent changes in Danish labour market policies do potentially weaken flexicurity arrangements again, reducing social dialogue opportunities, making the unemployment benefit system less attractive to some groups at the periphery of the labour market, and giving some imbalance to economic and labour market steering. Besides, integration of immigrants is still a common problem. The biggest challenges or threats to the Danish governance success are now endemic. The future status as role model might be challenged in case the imbalances are not conquered. Some influential social and political forces within and outside the country see the flexicurity arrangements as too "trendy" and they might - as Søren Kierkegaard almost predicted - be eager to help making the country a widow soon!

IX. The relevance of Danish lessons for Latin American countries

Dealing with Latin American countries you have to emphasize diversity, differences and divergence when trying to describe economic and political situations, labour markets and regulative practices. Cultural diversity is also a fact. Welfare institutions are relatively poorly developed and as always embedded in the social reproduction structure of each country. Social and welfare policies are having a haphazard nature. Universalizing concepts of globalization, theories of world societies, and functional analysis of policy convergence stake everything on one card. But there has been a misdeal here¹³. You need to distinguish between countries or groups of countries according to their traits and history, trajectory or paths of development. Late industrialization has brought about a process of technological change superimposed on national economies and having populism and labour supply growing rapidly at the same time (Jatoba 1998, Huber 2002, Duryea et.al. 2003). The result has been only partial modernisation of the economy and labour markets in which firm job holders in the core of the labour market with strong job protection exist side by side with underpaid workers in insecure positions and many unemployed people. Informal activities and strong cleavages are to be seen. During the last two decades, a transition from protected state-led to market-oriented economies has taken place, restructuring labour markets

¹³ The same is to be said as to universalistic approaches in economics and sociology like rational and social choice theories.

and creating new changes, cleavages and inequalities. Economically, import substitution has been replaced by neo-liberal market models. To more observers it seems obvious that only by the help of bureaucratic authoritarian regimes did this change succeed (Collier and Handlin 2005, Duryea et.al. 2003, Huber 2002). Large layoffs have been the result and changes in production structures have weakened trade unions¹⁴.

A shift in interest representation is also to be witnessed in Latin American countries: From a dominant trade union-party hub to a broader associational interest representation structure. The trade unions are no longer the sole basis of interest group representation as "popular associations" have grown in influence, especially at decentral levels. At national level, the trade unions and employers' federations are still in stronger positions. This is central to flexicurity processes.

Demographic developments will also bring new problems in the future. The heterogeneity on the demand side together with rising participation rates and demographic characteristics on the supply side will pose serious questions to a balanced development strategy. The inequalities of access to jobs, qualifications, and incomes are huge problems that must be addressed by flexicurity policies.

Are those different kinds of problems to be solved by the help of Danish flexicurity arrangements? Posed this way the question will have an easy answer: no! A labour market regime is not to be imported, and as you cannot copy a system, it is more interesting to see what kinds of lessons you can learn from the Danish case and bring with you in a *political strategy* for introducing and implementing flexicurity in other systems¹⁵. This brings a promise of creating win-win-situations that might give both employers and employees and other stakeholders an interest in flexicurity experiments¹⁶. It is also worth noting that European countries with flexicurity-oriented policies all have high employment rates and low levels of income inequality.

Even if transferability of Danish flexicurity to Latin America is limited, some *guiding principles and lessons* can be addressed, highlighting relevance of components and relationships of elements for those countries. Best practice can be instructive.

A starting point is to stress factors of transferability of policies in general into another surrounding. Vivian Schmidt (2002a and 2002b) has made some important observations as to these kinds of factors: *economic vulnerability* (especially presence or absence of economic crises), and, secondly, *political institutional capacity*, which is inherent in the political important actor's ability to negotiate and facilitate change and adaptation. A well-organized IR-system will facilitate the introduction of flexicurity elements and so will a potent and welfare-oriented public sector. Thirdly, *policy legacies and preferences* must be considered. They are important in finding a match between potential policies and existing traditions and institutional arrangements. The historical preferences and policy legacies are also stressed in the EU's present efforts to impose flexicurity

¹⁴ Argentina has been the most unionized country in the region. But here membership fell from 45 to 23 percent between 1980 and 1995. In Peru membership even plummeted from 23 to 6 percent of the total workforce within the same period. Brazil is the only exception to this picture, it seems.

¹⁵ Early on Ton Wilthagen (1998) defined flexicurity as a strategy like this: "A political strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organisation and labour relations on the one hand, and to enhance security – employment security and social security – notably for weaker groups in and outside the labour market, on the other hand". Later, Wilthagen and Tros (2004) defined flexicurity as a state of affairs in employment systems: "Flexicurity is (1) a degree of job, employment, income and "combination" security that facilitates the labour market careers and biographies of workers and a relatively weak position and allows for enduring and high quality labour market participation and social inclusion, while at the same time providing (2) a degree of numerical (both external and internal) functional and wage flexibility that allows for labour markets' (and individual companies') timely and adequate adjustment to changing conditions in order to enhance competitiveness and productivity". Here flexicurity is no longer a deliberate political strategy.

¹⁶ Some scholars might even deny the possibility of policy transfer because of path dependencies, meaning that decisions made in the past are to determine future choices (see Pierson 2001). But path dependence is to be seen more as a perspective than as a clear theory, I think. Future decisions depend on past decisions to some degree only because of the constraining effects of those past decisions on opportunities of action, power relations and perceptions. Layering, drift and conversion will be concrete change mechanisms (see Streeck and Thelen 2005) but the future is open for new decisions.

solutions to national labour market problems. Finally, *the character of the national political discourse* is important. On the national discursive level, too strong inflexibility might prevent new thoughts – e.g. flexicurity – to influence the preferences and perceptions of the actors.

It seems obvious that factors are to be located, on the one hand, on the political system and the labour market institutions operating and, on the other hand, with the actors and their preferences and interplay. It is not enough that actors engage in bargaining rounds and in supporting public policies; they must also *trust* each other to foster more exchange of information and coordination and to develop cooperative strategies. The social partners and the government must also have mutual trust. And as to the institutional arrangements, strong incentives and norm production should be followed by the creation of mechanisms capable of coupling interests and policy goals, thus helping cooperation and coordination of efforts. Brought to the realities of the flexicurity concept used here: to move from one configuration of levels of flexicurity and security to another demands that actors change preferences and accept new priorities in order that the system develop resources and capabilities relevant for flexicurity arrangements. And without institutional coordination and cooperation mechanisms, it will be difficult to orchestrate arrangements that support the flexicurity experiment and will find legitimization as well.

This kind of "exercise" is to be carried out in each individual case and we know that the Latin American countries have different socio-economic conditions, coordination traditions, and institutional capabilities in this respect.

In Denmark, a comprehensive welfare state with high levels of taxes and spending is fully compatible with a dynamic, highly mobile and productive labour market. In the Latin American countries, you do not have this strong state and the social security connected to it. Therefore you lack much of the welfare state services that support a dynamic labour market (child care facilities, secondary and tertiary educational systems, including adult vocational training, active labour market services and so on). These welfare services are to be seen as productive investments in a well-functioning labour market and not just as expenditures. Here Danish lessons might inspire policy reorientation in the Latin American countries despite different political and institutional legacies and present labour market situations. A successful reform strategy for Latin American countries should also have strengthening of public institutions as an element to make them fairer and more accountable. But internal reforms (civil service reforms) are to be combined with external ones as to policy aims and programmes. Relevant for combining pro-growth policies with greater employment protection is the Danish LMP experiences and the LLL-strategies implemented for a longer period of time. In the Latin American systems, low job security in the informal sector of the economy versus the high job security in the core of the formal economy do pose special problems to be dealt with. The positive experiences with employment security in the Danish system seem to call for an offensive LMP dealing with separate programmes and actions as to the different parts of the labour market and different target groups. Establishing a discourse change in order to put LMP and LLL strategies on the political agenda is a precondition; but then negotiations and policy-making processes, including the social partners and other associations, might be productive in trying to change the present configuration of jobs and job protection on the one hand and income and employment protection on the other. This is no easy task as conflicting interests are involved too. National and international experts might be helpful to policy-makers in bringing in more information and communications across borders. But such a complex task cannot succeed without supranational actors like the FN and the ILO also engage themselves actively in these experiments on this part of the world. Different national pathways are again to be expected and accepted.

The EU has given birth to common flexicurity principles to be followed by the member states from now on. A lot of indicators will be developed. This brings the risk of inflating the principles into a detailed manual for flexicurity (as was the case with the European Employment

Strategy from 1998 to 2005). Such a manual will be misleading and the Latin American countries should avoid doing the same. In stead it will be fruitful to start at a certain level of generality and then bring national situations into the question, considering the special contexts and conditions for proposals and policy drafts as to guidelines for change.

1. Three policy principles of flexicurity

Three aspects of policy change can be considered: the content side, the processes of policy-making and implementation, and the policy outcomes (Madsen 2007a). This equals principles of (1) *policy design*, (2) *social dialogues*, and (3) *outcomes*.

(1) The fundamental principle as to the content of the policy in question must be *to integrate flexibility and security in policy drafts and arrangements*. Simply to change one of the core elements will do damage to the whole flexicurity construction. More risk taking on the side of wage earners presupposes stronger income security and employment security. And more flexibility to the employers' benefit demands better training and education of the workers, stronger binding of the actions of the firms to goals in public policies and measures to make transitions pay. A goal must be to give wage earners the experience of "the security of the wings". Again it is important to stress that it is not individual policy tools that counts but pools of tools and programmes. A reform package is called for. Mobilization and linking of resources and capabilities from different actors are part of the game when establishing flexicurity.

Uncoordinated production structures in Latin America do not eliminate the possibility for redistributive welfare policies. They may complicate the decision-making processes but the success formula is to include reforms in the production structure, the labour market, and the welfare state regime at the same time. The growing informal sector is of course a special problem here as is the power structure behind. Latin American labour markets cannot be called inflexible because they have absorbed many new workers and many different kinds of workers¹⁷. Supply has been excessive though and unemployment is a well-known phenomena. In a few cases, countries have experienced falling employment rates - thus also rising unemployment - but in the rest of the region rising unemployment seems to be related to growing participation rates which the labour markets have not been able to absorb in higher employment, especially not in Middle and Southern countries¹⁸. As the Southern core of Latin America seems to be more welfare state oriented than the Northern part, you might expect those Southern countries to be early starters as to flexicurity strategies with investments in LMP and social security. Youth unemployment and urban unemployment are amongst the pressing problems to be addressed by flexicurity strategies. Low productivity developments are also to be recorded. Next, more and more workers are employed in jobs and sectors that pay very low wages. It is not to be expected the flexicurity arrangements can conquer all those kind of problems immediately. Therefore a mid-term and a long-term perspective for changes might be appropriate. New mixes of labour market dynamics, public programmes, and private responsibilities are called for. Latin America cannot rely on informal rights and weak public policies which seem to dominate today for much of the population in rural and urban informal sectors. These segments and people are excluded and relying heavily on informal security arrangements. But it is not to trade some short-term security in return for longer-term vulnerability

¹⁷ But you could say that labour law has been inflexible, quite resistant to change despite neo-liberal economic reforms during the 1980es and the 1990es. More labour regulation regimes are to be found (Uruguay and Chile having one form with low levels of collective protection but relatively high levels of individual protection, Peru and Bolivia another form with the opposite distribution between individual and collective protection, and Argentina and Mexico again a third form with strong individual and collective protection. Other national systems seem to fall between these cases). Argentina has not changed its system very much, presumably due to Peronist influence, but at the other extreme is Peru with big changes in the labour law structure.

¹⁸ This includes Bolivia, Colombia, Peru, Venezuela, Brazil, Uruguay, and Chile.

and dependence in new arrangements. Important is to integrate flexibility and security aspects in concrete drafts and proposals in action programmes that marry flexibility and security.

(2) In regard to the processes themselves, a *principle of supportive and productive social dialogue, involving negotiated "trade-offs"* must be applied. Building social and political consensus is essential to advance reforms. A democratic standard together with functional arguments calls for the participation of all significant groups and shareholders in decision-making and implementation processes. In order that plus-sum-games can be imagined and arrangements accepted by the actors, some kind of "horse trading" and massage of preferences is needed. Mutual trust is to be developed during negotiations, meetings and decision-making rounds, the institutional set-up of which is to be made by the government and the public authorities. We are talking about negotiated trade-offs "in the shadow of the hierarchy" (to quote Fritz W. Scharpf) or tripartite social dialogues. These processes must be transparent and negotiations iterative. Otherwise trust will not be developed between the actors.

Flexicurity do not install itself. It needs social and political forces promoting this new set of policy principles, and it needs broader acceptance in the regimes in order to be implemented. By including social partners and associations stronger in decision-making processes in Latin America, better policy-making and implementation can be facilitated. The presence of excessive veto points in more systems could also be altered this way. In order to develop active LMP this seems to be a necessary condition. The social partners are to be permanent participants in policy-making processes. The more polycentric structure of interest representation could, however, be used more strongly by integrating more associative networks and organizations in security arrangements (Cardoso 2004).

A clear lesson from Denmark in line with this principle of social dialogue is that before concrete action can be taken and public policy programmes and private interest behaviour can be coordinated you need to work on creating a new social consensus. Only such a common cognitive understanding can help coordination efforts and cooperative strategies for reforming national labour markets and welfare regimes. Yes, the solution to some of the flexicurity policy problems lies in the processes themselves!

(3) Finally, as to the outcomes of flexicurity arrangements, *principles of sustainable employment, protected mobility and social cohesion* are relevant. Realizing goals of sustainable employment for both core groups and groups in weak positions can only be done when having these groups included in strong active measures influencing skills and abilities as well as the motivations of the persons involved. More than economic incentives are needed for securing those principles. A positive motivational base is again to be fostered by strengthening their social position and income support. This is another lesson from Danish flexicurity from which you can also learn about the importance of empowering people in weaker positions to cope with their own situations by supporting them in developing labour market and life projects. Individual action plans are relevant for those people. The authorities and the social partners have to calculate distributional effects, and mechanisms of compensation for potential gains and losses for different groups have to be part of a flexicurity strategy. Redistributive elements need to be introduced in ways that will not do harm to the improvement of competitiveness of the enterprises. And solving the recruitment and qualification problems of firms are important aspects of flexicurity. Firms are to anticipate better by improving their work force's qualifications – e.g. to develop its human resources – and to foster high value production. Here society at large must help and intervene in case of under-investments. To ensure continuous adaptability of firms, to keep up productivity levels and employability of workers, reliable and responsible lifelong learning system must be established or improved.

Women still has a low employment rate in Latin America and are typically employed in informal sectors, offering low wages and benefits. The participation of women in the labour market

is limited by their responsibilities as mothers and caregivers, also because of norms giving low status to women in some countries and to the lack of public child care facilities. The last element can be changed rather easily by the help of expanding public services as part of a flexicurity offensive. Next, gender mainstreaming in public policies is highly relevant. Then men and women could be given more equal job opportunities. The challenge is intelligently to design reforms so you will have support from both politicians, administrators, the social partners and representatives from civil society while avoiding opposition from the families; and as expansion of public programmes have financial and re-distributional effects it is always difficult in the short run to strike the right balance between the many shareholders.

Especially the interests of firms as well as the interests of workers are to be taken account of in case of stronger LMP and LLL priorities. Today, investments in LLL are rare in most Latin American systems. Or you can put it this way: Investments in education do not seem sufficient to boost productivity for many countries without additional policy interventions. This is clearly a strong argument for a new flexicurity approach to develop labour market performance. Human capital investments complemented by public and private efforts to build up infrastructure, job opportunities, anti-segmentation measures through LMP, contact capabilities, and joint decision-making bodies are in demand. Returns of higher education can perhaps more easily be documented than returns of secondary education and vocational training; but the broad investments do pay off as has been seen in Denmark and elsewhere. As to information from CEPAL (Carlson 2001) Latin American countries are today falling behind their competitors in key educational areas of upper and technical education. Reforms seem needed in the existing educational system and in having strong investments in a tertiary education system realized. Protected mobility, "the security of the wings" and flexible labour markets could be promoted simultaneously by new flexicurity arrangements.

Flexicurity as an *integrated* policy and policy-making formula has to be developed in ways that will improve firms' competitiveness, improve transitions within the labour market, reduce segmentation, and improve labour market security of workers at the same time. But again: flexicurity will take different forms from system to system. The initial conditions and national traditions will influence the processes and designs strongly. No single road map can be outlined for Latin America. No one-size-fits-all approach is appropriate (contrary to those recipes to be found in the "Washington Consensus").

This leads us to a most important statement: *Flexicurity must be promoted not as a question of imitation but as one of inspiration.*

National change strategies must be elaborated in each case, sequencing change elements and integrating existing institutions in the arrangements. Perhaps the four EU "pathways" can inspire national choices in Latin America. Such pathways can look like one or more of these (EU Commission 2007, Wilthagen 2007):

- a) Reduce gaps between non-standard and standard employment by making standard contracts more attractive to firms and social security more inclusive.
- b) Reduce gaps between standard and non-standard employment and enhance companies' adaptability to developing and strengthening transition security.
- c) Address opportunities and security gaps among the workforce by embarking on a higher road towards a knowledge-oriented economy by deepening investments in skills.
- d) Enhance employment opportunities for the benefit of their recipients, prevent long-term welfare dependence, regularize informal work and built up more institutional capacity for change.

Pathway (a), (b), and (d) are highly interesting for the Latin American countries seen in a mid-term time perspective, while (c) must be a permanent pathway to follow. (a) is addressing the

issue of flexibility at the periphery of the labour market by integrating non-standard contracts into labour law and collective agreements, social security and LLL. More or "full" protection can be given to people who are integrated into private and public enterprises. This pathway calls for public interventions and new strategies from the side of social partners. (b) is directly connected to the question of internal and external flexibility and "the security of the wings" for wage earners. Together this might bring productive labour market transitions and improve mobility. But for the Latin American countries there is a long way to go. This will dictate more steps in the direction of transitional labour market arrangements. (c) is a pathway most relevant to the more developed economies. But the approach of keeping the labour market open and accessible for low-skilled workers and for groups presently placed outside the formal labour market is important and relevant and training and skills improvements are crucial to all kinds of labour and all national systems. (d) is directly linked to the need for increasing job opportunities for all groups at the margin of the labour market and to the question of broader and better coverage of social protection. It is important to reverse the rising trend in urban unemployment and informal employment, also because of the threats to social cohesion. LMP and social security should offer incentives and welfare opportunities in order to get more people back to work or in transition positions. Informal work can be regulated by offering flexi-cure contracts and special packages to segments of the labour market. Flexicurity policies in this connection can also be linked to the Decent Work agenda of the ILO.

Arrangements will vary with level of economic development, level at which they are to function (macro, meso, or micro-level), according to actors involved (governments, social partners, associations, political parties, firms and workers), and to the regulative package of tools applied (legislation, public services, collective agreements, procedural texts, recommendations, individual contracts etcetera). Political and cultural diversity is to be addressed too. We know from comparative analyses that different forms of flexibility are relevant to different system and the same goes with forms of security. In Denmark (and The Netherlands) external numerical flexibility in combination with functional forms (demanding training and education) and combination security are dominant while working time flexibility and internal functional flexibility is more in focus in Germany, Belgium and France. As to the security aspect, most European systems still have job security and income security as primary base. This is not the case in Denmark as shown. Employment security and broader labour market security are to be promoted together with creation of more and better jobs. The Latin American countries will be faced with different combinations of flexibility and security to be developed, and national discussions as to policy choice of pathways are urgently needed, it seems.

2. An example of a possible flexicurity initiative and a concluding note

The common view in Washington and elsewhere is that rules and institutions governing labour markets in Latin America raise labour costs, create entry barriers, and introduce new rigidities in the employment structure (Heckman 2000, Heckman and Pages 2004, Anaya 2002). These "rigidities" are blamed for over-expansion of precarious employment relationships and rural poverty. Flexicurity offers an alternative view – and documentation as well! The need to respond rapidly to new challenges from globalization and increased foreign competition can be met by the help of reforms as to labour market policies and social welfare elements that bring security to workers and a new positive strategy of flexibility and mobility. Bringing flexicurity principles into Latin American policies will surely be in line with the ongoing turn away from the "Washington

Consensus" with its commitment to market solutions as the arbitrators of economic activity¹⁹. Upcoming financial and economic crises will show the need for a renewal of policy programmes and institutional structures and within the labour markets this will be in order to facilitate innovation and adaptability of the national system. Public investments in better health care systems and child care facilities are to be considered productive as to economic developments; they should not be run down by old economic "wisdom" or political ideologies. Flexicurity offers an alternative to the Washington consensus and at the same time it must be regarded as a new test to national reform programmes of the labour market. A recalibration of existing elements might be the first step, both following and challenging national traditions.

Flexicurity is, however, not a recipe of society from the ravages of uncontrolled economic competition but a way of rethinking and reorganizing structures and ways of behaviour in order to redeploy resources and to give new meaning to the reconciliation of economic and social forces. This must be done in accordance with the national traditions, institutions and level of development. Reorientation of macro-economic policy could supplement these efforts. A failure to appreciate the differences between European and Latin American institutional forms of regulation and economic strength will, however, obscure opportunities for adaptation of flexicurity principles. Rapid policy proposals might inspire – but not have persistent effects. Results of reforms can neither be trivial nor cosmetic if support for flexicurity solutions is to be produced and renewed.

One *example* of an existing element in Latin American labour markets that could be central in strategic flexicurity thinking is *the labour inspectorate*. A unified system of labour inspection (with Spanish origin) exists in almost all countries, administered by a single public agency, the "Inspeccion de Trabajo", which also enforces certain provisions of private collective bargaining contracts. By contrast, the European systems have more kinds of institutional regulations and no general system of inspection but many elements in health and safety regulations, many of which have been orchestrated by the EU during the last two decades.

The Latin American labour inspection is having strong discretion and it uses the capacity to consider the effects of regulation imposed on enterprises before taking action. This system has a micro foundation for balancing regulations and broader economic interests of the enterprise – but it gives no strong sanctions and very few macro effects of regulation. In Latin America, the individual enterprise is expected to comply with the warnings of the labour inspectors over time. Penalties have only marginal effects it seems (Piore and Schrank 2006). So the inspectors are to be considered more as advisors or consultants than as an enforcing institution. Surely flexibility over the business cycle is met by the Latin American system – but it is not connected to a broader reform strategy of the labour market regime. If the flexibility built into the system is considered to be to the disadvantage of wage earners' security when pressures from the marketplace are strong, the system should be changed. In case the system also brings practices that distort competition and do not urge enterprises to modernize and adapt, the system should be changed. It could be reformed in order to have a more balanced approach by being integrated into a flexicurity strategy that can tackle the pressures of rapid changing economies and labour markets. The ability to adopt and a readiness for change – also on the side of wage earners – are becoming more and more important. Therefore, social protection, social cohesion, and solidarity must also be addressed.

Strengthening the compliance model of labour inspection could be one way to start developing more effective regulations in Latin America. The practice of inspectors could be more coordinated and seen in a broader context. By helping trade unions and employer organizations to be credible partners in negotiation rounds and collective agreements there would be a chance to have stronger decentral dialogues and integration of the labour inspectorate in a strategy for regime

¹⁹ More presidential candidates in Latin America have tried to run campaigns and reform programmes against neo-liberalism: just to mention Lula in Brazil, Vazquez in Uruguay, Chavez in Venezuela, Bachelet in Chile, Kirchner in Argentina, and Morales in Bolivia.

renewal. Sectoral and national effects and results must be sought. The public authorities are to bring institutional set-ups by legislation and actively give support to deliberative dialogues and joint decision-making. More expertise to help doing corrections of business practices, policy tools, and more dialogues is needed. This could help knowledge development and "best practice" to be fostered and also to generalize more trust in the system as well. The Latin model of labour inspection allows for additional help and expertise and here the social partners are one resource to use, public research and advice is another. To broaden the world view of inspectors seem very important; and here they could have flexicurity guidelines to follow new examples. Training and education programmes, LMP services and financial assistance could be the next elements in using the system for broader purposes. This could be the start of a more comprehensive CVT-system and stronger LMP institutions. Training seems to be in need of stronger prioritization and such programmes could facilitate compliance planning, help wage earners improve their skills and employability (thus also perhaps being used as substitutes for illegally hired labour), and upgrade enterprise practices and labour standards. Targeting training and education his way could help developing more comprehensive labour market regulations and, as it has been expressed, to bring "firms up to the standards imposed by their regulatory obligations rather than bringing regulatory obligations down to the productivity levels characteristic of firms" (Piore and Schrank 2006, p. 10). Here is a place for an integrative flexicurity approach. Programmes and institutions are to be connected and integrated but in new policy-mixes. The local initiatives and practices are again to be connected to a national and sectoral flexicurity strategy.

Ongoing changes in a number of Latin American countries actually do expand the scope of worker protection. The Dominican Republic has for example set up new hiring criteria and wage and employment guarantees, Chile has doubled the number of factory inspectors, and Guatemala is developing a proactive approach to labour relations. Nevertheless, this does not fundamentally change the operation of the national regimes. "The security of the wings" is not fostered and no clear connection is established to LMP and LLL-strategies. But building on reform of an existing institution such elements and priorities could be introduced in processes of flexicurity renewal. More steps must be taken by more decision-makers. Again the principle of social dialogues must also be remembered. The relevant actors in the systems are to be included in discussions as to ways of securing better functioning labour markets that can bring more security to people too.

Flexibility is not the monopoly of the employers and security is not that of the workers. In modern labour markets, interest structures have eroded old understandings and conflict perspectives, and new flexicurity arrangements can show that flexibility and security are not contradictory to one another, but they can often operate as mutually supportive. This also implies that there should be no talk about striking a balance between flexibility and security as it unduly will simplify the nexus – also in a Latin American context. The Danish example should be instructive in this respect. But the systemic character of the Danish case is documented by the long and winding road to its installation. Long historical processes, political and professional compromises and learning processes are part of the explanation of this system. And the systemic traits are not directly transferable to Latin American countries. Preferences, norms, and ideas are difficult to understand outside the context in which they are constructed (Johnsson and Hagström 2005) and Latin American meaning has to be constructed by disembedding policy ideas from the Danish institutional context. But with the help of, firstly, communication – like for example this paper – and, secondly, local and national de-coding and re-conceptualizations, policy diffusion could be facilitated in the form of flexicurity translation. Thirdly, institutionalization of adopted policy ideas and principles will be a separate and log-lasting affair in which re-interpretation will be a permanent national element. A flexicurity policy is made as it moves!

The Latin American countries have to develop their own strategies and systems, to make their own choices – and it will take time to have reform programmes decided on and implemented.

A parallel policy trend is to be formed with the help of more social actors, as stressed again and again in this paper, but those open, continuous processes cannot be seen independent of the societal distribution of power. Some general principles of flexicurity can, hopefully, be productive in developing flexicurity strategies tailor-made to the national settings. Communication of experiences and ideas can, however, only be a first step.

No full-fledged flexicurity programme is elaborated yet and no easy political blueprint for reform processes exists. Commitment to the insinuating recipes of the Washington Consensus and the form-fitting theories behind is much easier than being a friend of flexicurity – but less challenging, I think. In theory there is no big difference between theory and practice. In practice we know there is.

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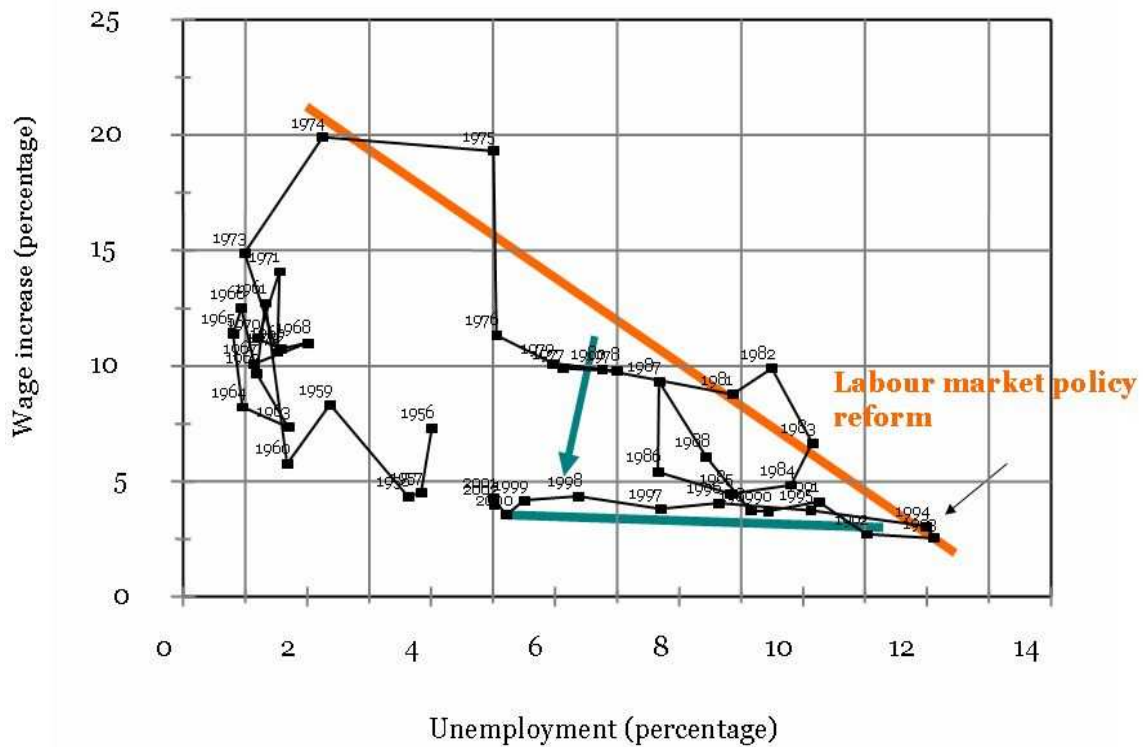
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Annexes

Annex A

Figure A.1
THE DANISH PHILIPS CURVE 1956-2005



Source: Danmarks Statistik – ADAM databank.

Annex B

Table B.1
THE DANISH PENSION SYSTEM 2004

Public pension	State pension ("folkepension") (tax financed)	Basic amount
		Supplementary pension provision
	Supplementary statutory pensions (contribution based – fully funded)	Wage earners supplementary pension (ATP, since 1964) – earnings – related
		SP (special pension – 10 years)
LD (contributions from 1977-79)		
Special public support arrangements for pensioners		Heating allowance and other personal forms of support
		Housing benefit for pensioners
		Different forms of tax reductions and discounts
Private pensions	Collective	Labour market pensions (since 1989)
	Individual	Other private pensions

Source: Own elaboration.

Annex C

Table C.1
PUBLIC FINANCES IN DENMARK 1994 – 2004

	1995	2004
General government expenditure		
Denmark	60,3	56,3
Total OECD	42,4	40,8
Tax and non-tax receipts		
Denmark	58,0	58,6
Total OECD	38,4	37,5
Budget balances		
Denmark	-2,3	2,3
Total OECD	-4,0	-3,3
Government debt		
Denmark	78,4	49,4
Total OECD	73,7	76,4

Source: OECD.



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