

Chapter 10

Security and labour market flexibility: an alternative view from Denmark

Bjarke Refslund, Stine Rasmussen and Ole H Sørensen

1. Introduction

In the face of the economic and financial crisis, several European countries have implemented a number of structural reforms to increase employment and the flexibility of the labour market, in particular by reducing employment protection in an effort to deregulate labour markets. Reform proponents believe that a reduction of the gap between the protection of regular and non-standard contracts will decrease the alleged disincentives to offer permanent contracts, which should then lead to an increase in open-ended employment contracts and, thereafter, to greater productivity and consequently higher employment. Conversely, reform opponents claim that this view builds on a misguided view of labour market dynamics. They do not believe that such reforms will lead to job growth, asserting that such reforms are as likely to reduce as to increase employment and that they will lead to growing inequality and labour market segmentation.

In Denmark, employee protection in terms of notice periods and dismissal compensation, which is mainly regulated by collective agreement, is among the lowest in the EU. Unemployment was, before the crisis, among the lowest in the EU but the crisis also negatively affected employment in Denmark. However, there have been no major moves to deregulate employment protection; probably because flexibility is already high in the so-called Danish flexicurity model and because much of employment protection is settled in the collective agreements.

Instead, politicians have turned their attention to the security part of the flexicurity model by reducing rights and eligibility for benefits. Especially since the crisis, the political system has focused much on the group of persons outside the labour force who are on some sort of public support, and political debates have often emphasised that the size of this group must be reduced. An often-used number in the political debate is that just less than 800 000 people of the active workforce age are on public support compared with 2 861 000 in the labour force. This relatively large number is used to form the argument that, with so many not working, the incentives to take on work are not strong enough and must be strengthened even more. However, in reality, this group is rather heterogenic and mainly consists of students with the remainder being persons on many different types of benefits and on different leave schemes as well as those who are ready to take on work and people with disabilities or health problems who are not able to work. According to experts, it is only possible to mobilise around 150 000 of this group and they therefore criticise the political debate for being misguided (Bennike 2014).

This idea of a large group of people on passive support that do not have the incentives to take on work seems to have been the driving force behind several reforms targeting and reducing social security in Denmark after the crisis. The rationale has therefore not so much been to reduce the level of social security in order to create more labour market flexibility, but more to mobilise and activate a larger number of passive citizens to take on work, thus also increasing labour supply.

This chapter discusses the question whether there are indications that the effects of such reforms can be detected in employment levels and in changes in labour market dynamics and how this relates to a Danish labour market known for high flexibility. The reforms may affect low- and high-skilled workers differently and it may differ between sectors due to differences in sectoral collective agreements.

To answer these questions, we:

- explain the particularities of the regulation of the Danish labour market: collective agreements, flexicurity, welfare regulation, etc. to give the reader an understanding of the context of the reforms;
- analyse the development in employment and unemployment from 2000 to 2015;
- discuss recent reforms of the social security system and in the unemployment benefit system;
- discuss the relationships between reforms in social policies and unemployment insurance schemes and changes in the labour market.

2. The regulation of the Danish labour market

This section¹ highlights the key features of the Danish labour market in order to provide an understanding of how its characteristics, functioning and regulation affect employment levels.

There is a strong tradition of voluntary collective bargaining and strong social dialogue between trade unions and employer associations in Denmark. The social partners negotiate and reach agreements on most of the terms and conditions of employment through collective agreement (e.g. wages, pensions and notice periods) without state intervention. Legislation exists, but it often has a second tier position either as framework law or by securing the coverage of segments of workers who are not included in the collective agreements. This tradition builds on strong social partners with mutual respect for each other's position and a rather strong consensus that voluntary bargaining is still the right approach to labour market regulation, albeit still with re-occurring industrial conflicts (Andersen *et al.* 2014).

The strong consensus builds on the presence of strong and representative social partners (trade unions and employer associations). Union density is very high in international perspective. In 2014, this figure is 68 per cent (DA 2014). There are numerous unions

1. A large part of this section builds upon chapter 2 in Rasmussen *et al.* (2015).

– mainly organised on the basis of trades – but, despite some internal conflicts, they predominantly act as a coherent movement, in many cases in sector coalitions, and they mostly avoid competing with each other over members and agreements. However, it should be mentioned that, within the last three decades, union membership rates have declined from over 80 per cent and there has been a noticeable growth in so called ‘yellow unions’, or alternative ideological unions. These are not members of one of the three union confederations and do not take industrial action; some of them do not sign collective agreements and, where they do so, these typically offer a lower level of wages and rights for employees (Ibsen *et al.* 2013). Competition does occur between these unions and the traditional ones.

Almost all unions are organised into three main confederations (traditional blue-collar workers in LO (Landsorganisationen i Danmark [Danish Confederation of Trade Unions]); academics in AC (Akademikerne [Danish Confederation of Professional Associations]); and mostly public sector employees in FTF (Funktionærernes og Tjenestemændenes Fællesråd [Confederation of Professionals in Denmark]). This unity also applies at workplace level where, in contrast to many other countries, there is a single channel of worker representation. The Danish ‘cooperation system’ normally consists of a cooperation committee and a worker-elected shop steward in workplaces, where coverage remains high, especially in the larger workplaces and companies.

When it comes to employers, all employers in the public sector are members of employer organisations and, in the private sector, the degree of employer organisation is about 58 per cent (measured in terms of the share of the workforce employed in a company which is a member of an employer organisation). Employers’ organisation rates have increased in recent years (Ibsen 2014:126) but has historically been a little below the European average (Jensen 2007:202-204).

Around 84 per cent of all employees are covered by collective agreements, mainly at sector level although there are also some company-level agreements, while, of the remaining 16 per cent, a substantial share is employed as salaried workers, which secures them certain rights (DØR 2015: 306-307; Rasmussen *et al.* 2015). In the public sector, all employees are covered by collective agreements while, in the private sector, 74 per cent are covered (DA 2013:262). However, there are quite substantial differences between sectors. For instance, the construction sector and manufacturing have substantially higher coverage than the private services sector, and particularly low levels of coverage can be found in sectors such as cleaning, hotels and restaurants, and transportation (Ibsen 2012:72). In agriculture, the level of collective agreements is below 50 per cent (Refslund 2016: 602).

The collective agreements settle most conditions on wages and terms of employment. In general, the agreements regulate working time, overtime, minimum wages, notice conditions, pension and representation in the workplace. However, the specific content of the collective agreements varies a great deal between sectors and there are some significant differences across sectors. These result in some gaps e.g. in wages between such sectors but also in employee protection, where dismissal rights also differ for different groups of employees. These variations are grounded in historical developments,

different institutional configurations, variations in labour market organisation and work organisation in the sectors, as well as sector specific trade-offs between wages and redundancy benefits and other benefits (Rasmussen *et al.* 2015). However, the different unions and wage groups are somewhat trapped by these historical conditions since general wage developments more or less follow the same overall pattern in the collective bargaining system. This is partly because collective agreements are still highly coordinated in the Nordic countries (Vartiainen 2011).

The collective agreements give rights to all employees in the organisation within a certain area, including employees who are not union members (Jørgensen 2014:18), and they cover all types of wage-earners working in the firms covered by the agreement. This means that the agreements not only apply to full-time employees with open-ended contracts but also to part-time workers, temporary workers and casual workers, if they conform to the definition of wage-earner (Lorentzen 2011:83). In some countries, a standard employment contract may be understood solely as a full-time open-ended contract; however, in the case of Denmark it is more appropriate to understand standard employment as employment regulated through the collective agreements, because being employed under a collective agreement means that the employee has certain rights and a certain level of protection regardless of the type of contract (Rasmussen *et al.* 2015). This does not, however, mean that workers not covered by collective agreements are in an atypical employment *per se*; they can also enjoy the same rights and terms of the collective agreements if their employer chooses to follow the agreement without actually signing it.

Consequently, the Danish labour market model combines state regulation and voluntary agreements between unions and employer associations, in which the voluntary element is dominant. Thus, state-driven labour market reforms are limited to certain policy areas, although some changes in the labour market have started with the government putting pressure on the social partners in tripartite negotiations. This, for example, happened in a recent agreement on a new labour market introduction training scheme for refugees in spring 2016. Some reforms have been implemented as a result of EU regulation but, even in these cases, the social partners have been involved through the so-called 'implementation committee' and have been given due time to negotiate changes to collective agreements that adapt these to the new EU requirements. Subsequently, the state has typically supplemented these with legislation to cover workers who are not covered by the collective agreements.

2.1 Danish Flexicurity

Another important characteristic of the Danish labour market is the unique combination of high labour market flexibility (low employment protection), high levels of unemployment benefits and a high level of active labour market policy and education. These three legs together have become known as the Danish Flexicurity model (Bredgaard and Madsen 2015; Kongshøj Madsen 2006). The collective agreements' relatively low degree of employment protection combined with high levels of social security and active labour market policies helps the unemployed return to the labour

market by raising their skills (labour market education, training, etc.) and motivation strategies. Some sectors, e.g. construction, have notice periods as low as ten days for employees in open-ended contracts with tenure of up to ten years in the same company. A low level of employment protection normally creates job insecurity for the workforce but, in the Danish case, this insecurity is compensated for by a high level of social security (income security) and an active labour market policy (employment security). Owing to high unemployment benefits and strong active labour market policies, the unions have accepted the low levels of employment protection while the social partners in general have a positive perception of labour market flexibility. Labour market flexibility is thus a trade-off for higher income security and other labour market benefits such as a comparatively high wage level.

Flexicurity should be seen as a negotiated equilibrium so, when policy reforms alter one part of the flexicurity model (e.g. income security in terms of unemployment benefits), this will typically spill over into collective bargaining. The trade unions in general have also strongly opposed the shortening of the period of unemployment benefit, so the development of flexicurity is contested in the Danish context.

According to the OECD's EPL indicator (see the chapter by Myant and Brandhuber in this volume for a discussion), Denmark is placed either in the middle or lower part of all OECD countries.² However, the indicator does not take into account the relatively large differences in employment protection between different sectors and different groups in the labour market that has arisen because of the tradition of regulating employment protection in collective agreements, in which the social partners in different sectors have been able to adapt the notice periods to the needs of the sector. For instance, in construction notice periods are typically really short (often from day to day), while other sectors have somewhat longer periods. Furthermore, more than one-half of the Danish workforce is also employed on terms similar to salaried employees, which are regulated by law, so these employees have more favourable notice periods than stipulated in the collective agreements. This further complicates the measurement of EPL. However, salaried employee terms mainly apply to white-collar workers, of which many are public employees. There is no legislation for notice periods in the private sector (public employees are covered by the regulation of public administration and, in many cases, the law on salaried workers), so this must be agreed either in the collective agreement and, if the worker is not covered by a collective agreement (or the law on salaried workers), it must be defined in the contract. Hence the notice periods established in the collective agreements are most important for employees in the private sector (cf. Rasmussen *et al.* 2015).

It is, in general, assumed that low employment protection for ordinary employees combined with the higher level of unemployment benefits contributes to high labour market flexibility, with employees not as concerned about losing their job as in many other countries. Denmark is, therefore, also characterised by a high level of mobility

2. In 2008, Denmark was placed towards the bottom, with only regimes like the United States, UK, Canada, Australia and Switzerland ranking lower (Madsen 2015:57). In 2013 (after a revision of the EPL indicator), Denmark was placed in the middle (OECD 2013:78), further away from these countries.

between jobs, a lower level of job tenure and higher job creation than other countries (Andersen *et al.* 2015). According to statistics from the OECD and the Labour Force Survey, average job tenure in Denmark was 8.1 years in 2014 which is one of the lowest averages in all OECD countries.

Table 1 Examples of notice periods in selected industries

	After 1 year of employment	After 5 years of employment	After 10 years of employment
Construction	3 days	10 days	10 days
Manufacturing and transportation	21 days	56 days	90 day
Salaried employees	3 months	4 months	6 months

Sources: Collective agreements for manufacturing, 2014-2017; for construction, 2014; and the law on salaried workers

Owing to the flexibility of the ordinary workforce, the use of non-standard forms of employment (such as, for instance, fixed-term employment and temporary agency work) is not as dominant as in many other European countries (Grimshaw *et al.* 2016). According to statistics from the Labour Force Survey, approximately 8 per cent of all employees are employed in fixed-term positions and this is a share that has been relatively stable during the last 10 years, including during the economic crisis (Rasmussen *et al.* 2015). Temporary agency work accounts for approximately 1 per cent of all employment and has been more sensitive to the economic crisis, with the number of temporary agency workers falling drastically during the first year of the crisis but re-attaining the previous level in 2014 (Dansk Erhverv 2015).

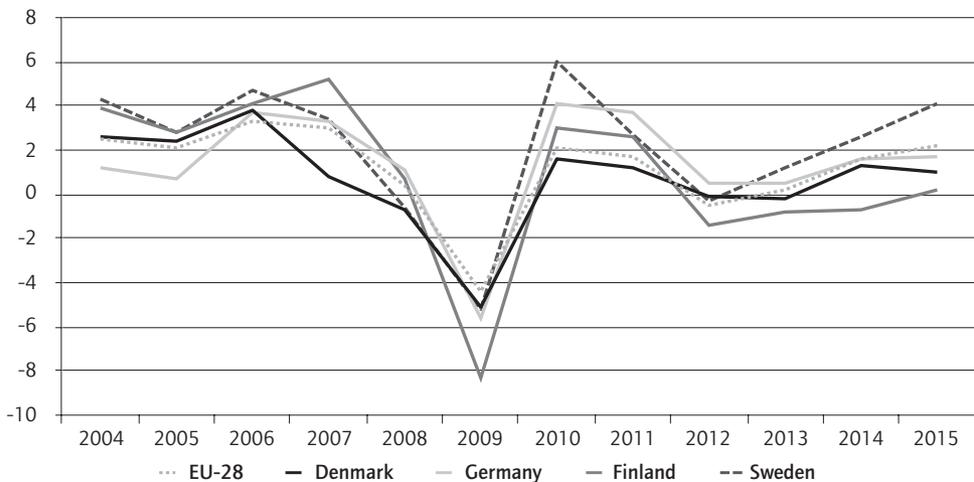
We described in the Introduction that there have been no major legal moves to deregulate employment protection in Denmark, partly because it is already at a low level and partly because it is regulated in the collective agreements. There have, however, been some reforms that have affected the institutional power of the Danish unions, e.g. by allowing cross-trade unemployment insurance funds and thus challenging the Ghent system (Klitgaard and Nørgaard 2014), which is also a distinct feature of the Danish labour market. However, we will not discuss these changes in any detail here (see Refslund and Sørensen 2016 for some of these discussions). Instead, politicians have, as mentioned in the Introduction, cast their attention on the security part of the Danish flexicurity model by reducing rights and eligibility for benefits, mainly for people on the fringe of the labour market. The rationale has been that the number of persons outside the workforce on different types of public support is too large and that the system therefore is too expensive. Less security will increase the incentives to take on work and create a larger labour supply. In the next section, we take a look at the levels of unemployment and employment in Denmark since the crisis and, in the following section, we will describe the reforms targeting social security in greater detail.

3. Employment, unemployment and economic performance after the crisis

Denmark is often included in comparative political-economic analyses due to interest in the combination of high equality (Denmark had the lowest Gini coefficient in the latest OECD figures from 2012), strong competitiveness and strong economic performance (Kristensen 2013; Kristensen and Lilja 2011; Refslund and Sørensen 2016). This has also been reflected in the labour market, where the Nordic countries in general have been able to sustain high levels of employment and low levels of unemployment as well as high general wage levels in a compressed wage structure (Refslund and Sørensen 2016). Compared with European averages, the employment rate remains high and unemployment rates are still low. However, the crisis put the Danish flexicurity model to the test, since it was claimed by critics that the model had never been tested in an economic downturn (Andersen *et al.* 2015). Following the crisis, there have been some changes in the Danish labour market which we will discuss here and in the next sections.

Denmark was hit rather hard by the economic and financial crisis that started in the autumn of 2008. Danish GDP dropped 0.7 per cent in 2008 and by as much as 5.1 per cent in 2009 in the peak year of the crisis, which was higher than the EU-28 average of 4.4 per cent. GDP has improved significantly, but recovery in the Danish economy and the Danish labour market has been somewhat slow; the overall GDP level had, in 2015, still not regained its level of 2008. However, the Danish economic recovery has followed the same pattern as other Northern European countries, as seen in Figure 1. Growth rates in the Danish economy have been close to the EU average, but the accumulated growth since 2008 has been below the EU average and lower than the growth rates in Germany and Sweden, albeit better than e.g. Finland.

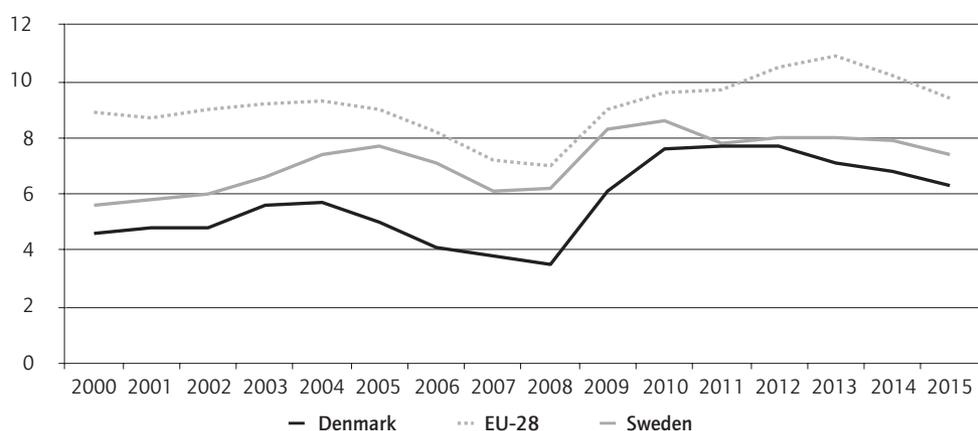
Figure 1 GDP Growth in selected European countries



Source: Eurostat

Unemployment in Denmark has been significantly below the European average and the Danish labour market has performed well in the last fifteen years, which is the main reason why the Danish flexicurity model has received so much attention. When the crisis started, the Danish labour market was in a situation close to full employment, with an unemployment rate of 3.5 per cent in 2008. However, as in most other European countries, unemployment rose sharply in 2009 and 2010; even higher than the EU-28 average (albeit from a lower level) and higher than in the other European countries with which Denmark is normally compared, such as Sweden, Norway and the Netherlands (Goul Andersen 2013: 32 – see also Figure 2). However, unemployment peaked earlier than the EU-28 average, which did not peak until 2013. In Denmark, unemployment reached 7.6 per cent in 2010 and then remained stable at 7.7 per cent in 2011 and 2012 before dropping to 6.3 per cent in 2015. Compared with the pattern of the EU-28 average, the Danish labour market adjusted faster than the Swedish, which could reflect that flexibility in the labour market made it easier for employers as well as employees to adjust to the crisis. However, in the Netherlands, which has also been known for a flexicurity system, unemployment did not peak until 2014.

Figure 2 Unemployment in Denmark compared with EU-28 average and Sweden

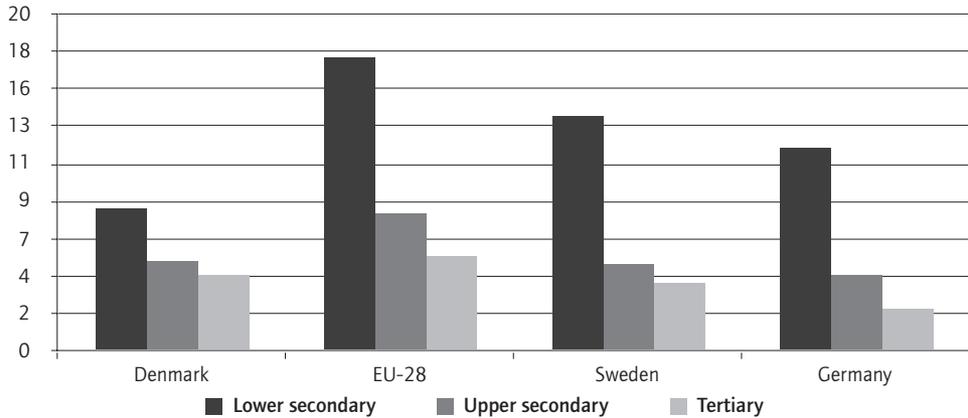


Source: Eurostat, LFS figures

The Danish labour market also performs well when it comes to long-term unemployment and youth unemployment – two crucial issues in European labour markets. Unemployment spells in general remain comparatively short (Andersen 2012). In 2014, 25.2 per cent of the unemployed were long-term unemployed, which puts Denmark at the top end of the list, outperformed only by the other Nordic countries; this is around half the European (EU-28) average of 49.5 per cent. When it comes to youth unemployment (15-24 years) Denmark is also way below the EU average, at 10.5 per cent compared to 19.4 per cent in the EU-28, with only Germany, United Kingdom and Czech Republic being lower. Finally, if we look at the differences in unemployment between various educational groups, workers with the lowest educational levels were most affected by the crisis in almost all European countries and, while this is also the case in Denmark, Danish low-skilled workers are less affected. When we compare the unemployment rates in 2014 for various educational groups, we can see in Figure 3

that the differences are smaller in Denmark both when compared with the EU average but also when compared with Swedish and German workers with only lower secondary education, a group which has a lower level of unemployment in Denmark.

Figure 3 Unemployment levels for educational backgrounds 2014

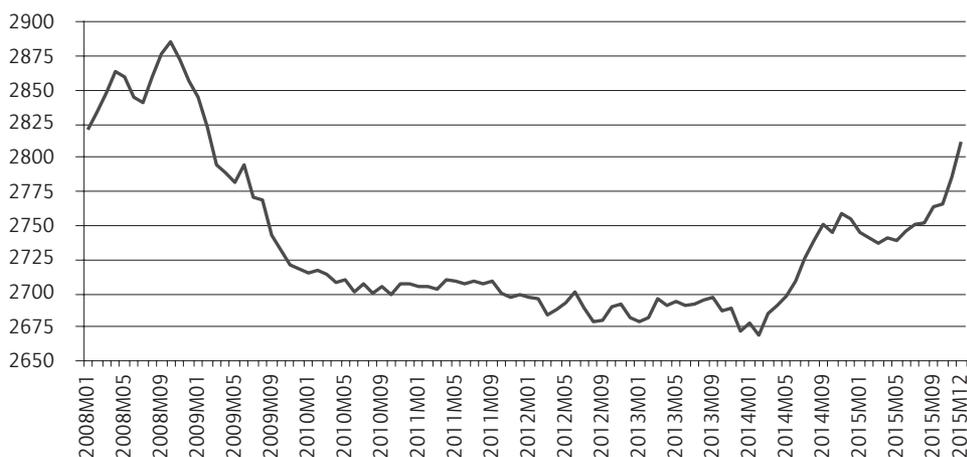


Source: Eurostat, LFS

The Nordic countries have historically had high employment rates and these remain high, although employment rates fell significantly during the crisis especially in Denmark, where it dropped from 77.9 per cent in 2008 to 72.8 per cent in 2014. Low-skilled workers in Denmark also have a significantly higher employment rate (61.4) compared with the EU average (52.6). Overall, Denmark is placed at the top end of the European ranking while the other Nordic countries are also at the top. The decline seen in Denmark between 2008 and 2015 can be problematic, especially if it reflects permanent exits from the labour market; however, recent figures from Statistics Denmark show that the figure is up to 73.5 per cent in 2015.

Almost 200 000 workers lost their jobs in the crisis, as seen in Figure 4 below. This is very significant, but the changes in jobs are not particularly high compared to the impact of the economic downturn in Denmark (see Andersen 2012; Andersen *et al.* 2015). A significant share of those leaving employment moved entirely out of the labour market, since the rise in unemployment does not match exits from employment. This is explained by a decline in workers with a second job and others moving into inactivity, education or activation schemes (Andersen *et al.* 2015: 248). It is most likely that the crisis has enhanced some of the tendencies towards movement in the labour market, e.g. either for workers considering retirement or for younger workers starting an education course (or further education); such decisions may have been accelerated by the crisis. However, there has been a strong increase in recipients of social assistance benefit, from around 110 000 to around 180 000 in the same period, some of which are most likely to have moved from employment before the crisis. There has been a significant increase in employment since 2014, although it is still below the pre-crisis level, and job creation has also remained at a high level during the crisis (Andersen 2012).

Figure 4 Employment in Denmark 2008-2015 (15-74)



Unit: Thousands
Source: Statistics Denmark, LFS

The Danish labour market was affected by the crisis, but it has followed the pattern of most other European countries as regards downturn and recovery. However, on most measures, the Danish labour market still outperforms most other European countries, including on long-term unemployment, youth unemployment and unemployment for workers with lower secondary education. When it comes to the unemployment rate, which is the variable most often emphasised by policy-makers, Denmark is also doing rather well, with the 8th lowest unemployment rate in the European Union. Compared with European averages and many other countries, unemployment peaked somewhat earlier in Denmark following the crisis. An explanation may be the high flexibility of the Danish labour market, in which enterprises can more easily adjust their activities. Economic growth has been sluggish since the crisis, but economic measures have been successful as overall performance and public finances are stable and, in particular, Danish exports are performing well. There are no clear indications that low economic growth is explained by developments in the labour market as such. Obviously, a further decline in unemployment would have a positive effect on growth rates but there are other factors, especially low domestic demand, which appear to be more central in explaining sluggish Danish growth (Goul Andersen 2013).

4. Recent reforms targeting social security

We mentioned before that, especially since 2010, there have been several reforms targeting social security in Denmark with the aims of strengthening incentives to make work pay and increasing the labour supply. Before we discuss these reforms in more detail, we provide a short description of the different social security arrangements in Denmark, because the two systems – the unemployment insurance system and the social assistance system – target two different groups in the labour market.

The unemployment insurance system is a voluntary insurance scheme mainly administered by the unions (the so-called Ghent system) but largely public funded. Seven out of ten Danes in the active labour force are members of an unemployment insurance fund (Klos 2015). Accessing unemployment insurance benefits requires membership of an unemployment insurance fund for a certain amount of time: the member must have worked at least 1 924 hours (52 weeks) within a period of three years. Those who not members of an unemployment insurance fund or are not eligible for unemployment insurance benefits may receive social assistance benefit, which is a means-tested public benefit aimed at citizens who are not able to provide for themselves.

There have been some significant changes during the last years in both systems (unemployment funds and the social assistance system) which, among other things, have tightened entitlement to benefits and toughened the requirements for receiving benefits. These changes have to be seen in connection with the idea of ‘making work pay’ which has been the dominant strategy in labour market policy during the last decade (Bredgaard *et al.* 2011:22-23). We described earlier that the Danish flexicurity model consists of three ‘legs’ – the flexible labour market; the social security system; and active labour market policy.

4.1 Changes to the unemployment insurance system

Some major changes were made to the unemployment insurance system in 2010 by a right-wing government coalition as a part of a wider attempt to revive the Danish economy by cutting expenditure. The most significant change was that the eligibility period for unemployment benefits was halved from four to two years, while the requirement for qualifying for a new period of two years was increased from six months of full employment to one year. This may still be seen as a generous system in international comparison (the benefit rates were kept at the comparatively high level), but the changes were understood as very substantial in Denmark. This was especially true since the changes came more or less in the wake of the financial crisis that hit Denmark relatively hard in terms also of unemployment (Goul Andersen 2013), which made it difficult for the unemployed to find new jobs. Previous reforms in the unemployment systems have not been carried out during economic downturns, which made the impact of this particular reform harder (Bredgaard 2015).

The tough aftermath of the crisis as regards the labour market meant that the succeeding Social Democratic government (2011-2015) first postponed the full implementation of the reform and subsequently enacted several temporary benefits to mitigate some of the negative implications of the 2010 reform. This was targeted mainly at workers who had used their two-year benefit period and were thus falling out of the unemployment insurance system, risking having to sell their house etc. owing to the much harder asset requirements in the social assistance benefit system. It also turned out that the initial reform was built upon the optimistic idea of the imminent recovery of the Danish economy and related growth in employment. According to AK Samvirke (the federation of Danish unemployment funds), more than 60 000 unemployed people had used up two years of benefits in 2015, which is a quite substantial share compared to

the 2011 peak of 235 000 unemployed (AK-Samvirke 2015) and very far from what had been expected. First, a so-called educational benefit package was implemented, aimed at those who would fall out of the system in the first half of 2013; and then came the introduction of a labour market benefit package aimed at those who would fall out by the end of 2016. In autumn 2014, a third type of benefit was introduced (*kontantydelsen*) as a part of the negotiation of the national budget for 2015. This was aimed at those who had used up their entitlements to unemployment insurance benefit or temporary benefit and who were not eligible for social assistance (Klindt and Rasmussen 2015:134-135). Eligibility for social assistance benefits depend on assets as well as the income of spouses or cohabiting partners, which means that those who fall out of the unemployment insurance system are not automatically eligible for social assistance benefits.

When it comes to the level of unemployment insurance benefits, politicians have several times debated whether lower benefits create more incentives to take up work, but no such actions have been taken yet, except for marginal groups such as refugees and new graduates. However, over the years, the degree of compensation (the level of the benefit compared to previous wages) has been reduced, mainly because benefits have not followed wage developments (Bredgaard 2015). For instance, for a female blue-collar worker the degree of compensation has been reduced from almost 90 per cent of previous wages in 1982 to almost 80 per cent in 2012; while for a salaried employee it has been reduced from approximately 60 per cent of previous wages to little more than 40 per cent (Klindt and Rasmussen 2015:133).

In autumn 2015, a new reform of the unemployment benefit system was agreed upon; the changes will be fully implemented in 2017 and some of these are quite wide-reaching. The main changes are a lower rate for new graduates, while it becomes more flexible to regain eligibility rights. Here, each recipient will have a month-based account so that each hour worked within the three-year benefit qualification period can be used either to extend the period of benefit or regain eligibility rights. To be eligible for another two years of unemployment benefit, scheme members need 1 924 hours (one year) of work within three years. Along with this, it becomes easier for unemployed people to accept short-term work, such as part-time fixed-term positions, while receiving unemployment benefit; these short-term jobs will also extend the eligibility period so that one day of work gives two extra days of benefit. The effect of these changes is still to be seen since the reform is not yet fully implemented.

4.2 Changes to the social assistance system

The social assistance system has undergone significant changes over time, but in 2013 there was a wider reform of the system. This was especially targeted at young people, since it was believed that too many young people were ‘parked’ on social benefits and the aim was therefore to create incentives to take on education (or work). It has therefore not been possible since 2013 for young people below the age of 30 to receive social assistance. Instead, they can receive educational help (*uddannelseshjælp*), which is a benefit lower than social assistance, at the same level as the state education grant, but

they are required to participate in education. If they are not assessed as being able to take part in education, they will receive an ‘activity benefit’, which is contingent upon their participation in various activities aimed at improving their chances of moving into employment or education. This type of benefit is at the same level as for persons older than 30 years.

For persons over 30 years of age, the requirements for receiving social assistance have also been strengthened. During the first three months, they must undergo an intensive job search course and, after no more than three months, they are activated in so-called ‘nyttejobs’ (‘utility jobs’) at municipal workplaces, which means that they must do various non-regular jobs at such workplaces. If the requirements are not met, sanctions such as reductions in benefits or a requirement for daily appearance at the jobcentre will be used. Over time, the use of sanctions has increased both in the social assistance system as well as in the unemployment insurance system.

The same reform also aimed at giving recipients with complex problems and marginalised people more job-focused help. This means that it is believed that these people are able to return to the labour market despite their problems. This focus on labour market integration for people on the edge of the labour market with problems beside unemployment has become more and more dominant during recent years, in line with the increasing focus on making work pay. In 2012, a reform regarding disability pensioners and flexjobbers³ was agreed upon. Here, it became more difficult to be eligible for a disability pension and it was decided that no-one could be eligible for disability pension by default but must undergo so-called ‘resource elucidation’ (‘ressourceforløb’), in which the aim is to develop the ability to work. This has de facto made it impossible for persons below forty years to receive a disability pension, unless they are highly disabled, whereas access was, earlier, more easy. In terms of the flex job scheme, it was decided that people with very limited ability to work should be able to work in a flex job and the scheme was therefore made available for people with more complex disabilities. These reforms have led to a sometimes heated public debate about whether it is fair that sick and disabled people are expected to participate in the labour market.

The rates of social assistance have also been a key debate issue in recent years. Recently, this led to a legislative change in which these rates were curbed by a ‘ceiling’ (a maximum rate). The size of social benefits depends on the household situation and is higher, for example, if the household has many children. The new ceiling has been accused of putting families in special conditions in very difficult situations. In the same reform, all benefit receivers deemed capable of work are expected to work 225 hours per year; if not, their level of benefits will be reduced.

-
3. Flexjob is an employment relationship in which reduced ability to work due to health problems is taken into account both in terms of hours and work organisation, both in private and public employment. The employer only pays for the work received; the rest is subsidised by the state. So, if an employee has a working capability of 50 per cent (which has to be assessed by a doctor and a caseworker), and can work 20 hours, the company only pays for ten hours and the state subsidises the remaining ten hours. The person employed is typically paid on a partly subsidised basis so the income equals 98 per cent of unemployment benefits, but they can earn more if they can work more and must be paid at the going rate (usually as set in the collective agreement) for the firm or sector.

5. Discussing the changes in the Danish labour market

Most of the regulation regarding employment protection in Denmark, e.g. notice periods and dismissal compensation, is settled in the collective agreements and the Danish labour market is already flexible with comparatively short notice periods and low or no compensation for laid-off workers. It is, therefore, difficult for politicians to target employment protection and the Danish political system is in general reluctant to legislate on labour market matters due to the strong tradition of self-regulation between the social partners (Rasmussen *et al.* 2015). Hence, there have been few legislative changes in the Danish labour market aimed at increasing employers' flexibility and reducing workers' protection in regard to the hiring and firing of workers. However, there have been other legislative changes aiming at lowering social expenditure and thus increasing labour market participation for the recipients of social assistance. The public debate and rhetoric has been heavily dominated by an agenda of increasing labour supply and making it more flexible, and several of the changes in labour market-related legislation in recent years have aimed at increasing the incentives for working vis-à-vis receiving various kinds of social benefits (including unemployment benefits).

Whether these policy changes have had any substantial labour market effects is rather unclear. In a detailed analysis of the recent reform of the social assistance system based on Danish register data by the Danish Economic Councils (DØR), in which they compare the group just above and just below 30 years of age (which was affected differently by the 2013 reform in social assistance), they find that the social assistance reform had a significant effect (DØR 2015: 253). Overall, there has been an increase of nine percentage points in exit from social assistance among the age group younger than 30 which was affected by the reform. Of these, six percentage points started an education (which is still supported by public benefit in Denmark), while only one percentage point found a job, with around one and half percentage points dropping out of social assistance schemes entirely (DØR 2015: 258). All in all, the Economic Councils estimate that between 1,600 and 2,300 social assistant recipients between 25 and 29 years of age have moved into the labour market, which equals an in-employment increase of 0.5-0.8 per cent for this group (DØR 2015: 264). Previous Danish analyses have found roughly similar effects of changes in social assistance (Jonassen 2013). However, these results have to be compared with the welfare effects of the reductions in benefits and, not least, compared with the even higher number of people leaving the social assistance system altogether, which can be very problematic. Many recipients of social assistance have other social problems besides unemployment (DØR 2015).

The overall employment effect of changes in the unemployment benefit systems seems to be restricted: instead of being pushed into the labour market, a significant and higher number of people have been pushed out of the safety net and have lost their subsidies. This has led some researchers to deem the unemployment system reforms mistimed, especially since the 2010 reforms (which reduced the eligibility period of unemployment benefits from four to two years and the requirements for qualifying for a new period was increased from six months to one year) were made while the crisis still lingered on and the labour market had not regained any momentum at all (Goul Andersen 2013, 2015; see also Figure 2). Unemployment did not start to fall before 2013.

The policy reforms shortening the unemployment benefit period, combined with the impact of the economic crisis, has actually resulted in some trade unions bargaining for greater job security in collective bargaining rounds. However, a higher redundancy agreement has, so far, only been agreed in the core manufacturing collective agreements, with companies in this area having to pay a sum of money to redundant workers dependent on seniority (Klindt 2014: 5). Furthermore, it has also had an effect on people in jobs, with a majority of workers feeling more insecure and job security becoming more important for them following the changes in the unemployment benefit system (Klindt and Rasmussen 2015). If job security becomes more important for the single worker, then the workforce may become less mobile since job mobility is no longer regarded as a safe transition and, in this way, the reform could affect the rather delicate balance between flexibility and security in the Danish labour market (Bredgaard 2015). However, the rate of unemployment benefit remains at a high level and there have not been direct changes to this, although some hollowing out has occurred since benefits have not followed general wage developments.

The Danish flexicurity system cannot be assessed by looking, for instance, at the duration of unemployment benefit in isolation but it has to be seen as a system where skill formation and active labour market policy play equally important roles. Despite the changes – mainly brought in the 2010 reform – one can argue that the overall system is still in place, albeit that it is under pressure due to the shortened period of benefits. The recent changes in the social assistance system are mainly aimed at people on the fringe of the labour market and the overall impact on labour supply is, so far, modest. These changes may be seen as more ideological in their emphasis on making work pay or otherwise as a continuation of the workfare regime (Kananen 2012) which may, in the long run, have a substantial effect on the Danish labour market and change the norms on labour market participation. The number of Danes of active working age on various types and schemes of public benefits has been reduced from one million in the mid-90s to 800 000 in 2016 (DØR 2015).

Denmark has comparatively low levels of unemployment and high levels of employment, but it does seem reasonable to conclude that this stems not only from high labour market flexibility but from the specific institutional mix in the labour market, with high levels of social security combined with an active labour market policy in which both unemployed as well as employees are given a high level of labour market training. Furthermore, other institutional characteristics, such as high levels of worker discretion and participation in work (Gallie 2007), a strong tradition of innovation and high levels of education, are also most likely to have an impact on the outcome. This seems to be supported by recent research showing that national institutions have a significant impact on the level of unemployment (Avdagic 2015; Avdagic and Salardi 2013).

6. Conclusion

There have been some significant reforms of the Danish unemployment insurance system and the social security system, with the eligibility demands being tightened for both; however, the implications for the labour market remain uncertain. It seems quite obvious that the economic and financial crisis has added to this uncertainty, so that the potential labour market effects of the reforms may have been subsumed by the effects of the crisis and the subsequent slow, but enduring, recovery of the Danish economy and labour market. However, it is also hard to disentangle the effects of such macro-phenomena and macro-institutions from the relatively minor and incremental changes e.g. in the social assistance systems. Changes in socio-economic models typically occur over the longer run (Jackson and Deeg 2012), which makes it difficult to disentangle the effects in the short-term, while the long-term effect of changes in social policies are often entangled with broader socio-economic developments and policy changes.

However, the 2010 reform of the unemployment insurance system that reduced eligibility from four to two years and also tightened the requirements for qualifying for a new period may have altered the dynamics in the flexicurity model somewhat. The unions have raised demands for higher severance pay but, so far, the changes have been ultimately minor.

Denmark is, despite lower than average economic and labour market performance during the crisis, still performing well above the European level, with comparatively high levels of employment as well as low levels of unemployment. The low level of employment protection does probably play a role in this, but this cannot be isolated from the other two legs of the Danish flexicurity model: the high level of social protection and active labour market policies which aim at reallocating redundant workers and upgrading their skills better to match the needs of the labour market. The skills needed by firms are constantly changing and it is very important, especially for low-skilled workers, that their qualifications are constantly upgraded since lower-skilled workers may become redundant more quickly when skills demands are changing. Danish low-skilled workers have significantly lower unemployment and higher employment rates than the EU average.

The high flexibility of the Danish labour market may have made adaption to the crisis faster in Denmark than in countries with a more rigid labour market, as discussed in this chapter. The level of unemployment benefits remains at a high level, which sustains the flexibility of the labour market, but there have been no serious attempts to reduce the benefits level, even though this is discussed from time to time.

Acknowledgements

We would like to thank Jon Lystlund Halkjær as well as the editors for some helpful comments.

References

- AK-samvirke (2015) Fakta-ark om dagpengereformen, 3 September 2015. <https://www.ak-samvirke.dk/aktuelt/analyser/faktaark-om-dagpengereformen>
- Andersen S.K., Dølvik J.E. and Lyhne Ibsen C. (2014) Nordic labour market models in open markets, Report 132, Brussels, ETUI.
- Andersen T.M. (2012) A flexicurity labour market in the great recession: the case of Denmark, *De Economist*, 160 (2), 117-140.
- Andersen T.M., Rosholm M. and Svarer M. (2015) Flexicurity, dansk økonomi og den økonomiske krise, in Bredgaard T. and Kongshøj Madsen P. (eds.) *Dansk flexicurity: fleksibilitet og sikkerhed på arbejdsmarkedet*, København, Hans Reitzels Forlag, 245-264.
- Avdagic S. (2015) Does deregulation work? Reassessing the unemployment effects of employment protection, *British Journal of Industrial Relations*, 53 (1), 6-26.
- Avdagic S. and Salardi P. (2013) Tenuous link: labour market institutions and unemployment in advanced and new market economies, *Socio-Economic Review*, 11 (4), 739-769.
- Bennike C. (2014) Er 800.000 danskere på passiv forsørgelse? Information, 3. November 2014.
- Bredgaard T. (2015) *Dansk flexicurity*, in Bredgaard T. and Kongshøj Madsen P. (eds.) *Dansk flexicurity: fleksibilitet og sikkerhed på arbejdsmarkedet*, København, Hans Reitzels Forlag, 17-52.
- Bredgaard T. and Kongshøj Madsen P. (2015) *Dansk flexicurity: fleksibilitet og sikkerhed på arbejdsmarkedet*, København, Hans Reitzels Forlag.
- Bredgaard T., Jørgensen H., Kongshøj Madsen P. and Rasmussen S. (2011) *Dansk arbejdsmarkedspolitik*, København, Hans Reitzels Forlag.
- Confederation of Danish Employers (DA) (2013) *Arbejdsmarkedsrapport 2013*, København, Dansk Arbejdsgiverforening.
- Confederation of Danish Employers (DA) (2014) *Arbejdsmarkedsrapport 2014*, København, Dansk Arbejdsgiverforening.
- Dansk Erhverv (2015) *Vikarbeskæftigelsen på kurs mod rekordniveau*, København, Konjunkturanalyse, København, Dansk Erhverv.
- De Økonomiske Råd (Danish Economic Councils) (2015) *Dansk Økonomi – Efterår 2015*, København, De Økonomiske Råd.
- Gallie D. (ed.) (2009) *Employment regimes and the quality of work*, Oxford, Oxford University Press.
- Goul Andersen J. (2013) *Krisens navn: bekæmper regeringen den forkerte økonomiske krise?*, København, Frydenlund Academic.
- Goul Andersen J. (2015) *Krisen uden ende? Forkerte diagnoser og fejlslagen krisepolitik i Danmark*, in Lyhne Ibsen C. and Høgedahl L.K. (eds.) *Økonomi og arbejde i det 21. århundrede: et festskrift til Flemming Ibsen*, København, Djøf Forlag, 337-356.
- Grimshaw D., Johnson M., Rubery J. and Keizer A. (2016) *Reducing precarious work - protective gaps and the role of social dialogue in Europe*. <http://www.research.mbs.ac.uk/ewerc/Portals/0/Documents/Comparative-Report-Reducing-Precarious-Work.pdf>
- Ibsen F. (2012) *Almengørelse af overenskomsterne – et støtteben til den danske model?* *Tidsskrift for Arbejdsliv*, 14 (2), 67-81.
- Ibsen F. (2014) *Organisationerne og overenskomstforhandlinger*, in Jørgensen H. (ed.) *Arbejdsmarkedsregulering*, København, Jurist- og Økonomforbundets Forlag, 119-150.
- Ibsen F., Høgedahl L. and Scheuer S. (2013) *Free riders: the rise of alternative unionism in Denmark*, *Industrial Relations Journal*, 44 (5-6), 444-461.

- Jackson G. and Deeg R. (2012) The long-term trajectories of institutional change in European capitalism, *Journal of European Public Policy*, 19 (8), 1109-1125.
- Jensen C.S. (2007) Arbejdsmarkedsrelationer i Danmark – fra konfliktbaseret konsensus til konsensusbaseret konflikt: industrial relations traditionen og de industrielle relationer i en dansk kontekst, København, Jurist- og Økonomforbundets Forlag.
- Jonassen A.B. (2013) Disincentive effects of a generous social assistance scheme, Working paper 01:2013, Aarhus, The Danish National Centre for Social Research.
- Jørgensen H. (2014) Arbejdsmarkedsregulering, København, Jurist- og Økonomforbundets Forlag.
- Kananen J. (2012) Nordic paths from welfare to workfare: Danish, Swedish and Finnish labour market reforms in comparison, *Local Economy*, 27 (5-6), 558-576.
- Klindt M.P. (2014) Tryghed på arbejdsmarkedet: analyse til Dansk Metal af lønmodtagernes holdninger og ønsker til tryghed efter dagpengereformen, Aalborg, Center for Arbejdsmarkedsforskning.
- Klindt M.P. and Rasmussen S. (2015) Indkomstsikkerhed, in Bredgaard T. and Kongshøj Madsen P. (eds.) *Dansk flexicurity: fleksibilitet og sikkerhed på arbejdsmarkedet*, København, Hans Reitzels Forlag, 125-156.
- Klitgaard M.B. and Nørgaard A.S. (2014) Structural stress or deliberate decision? Government partisanship and the disempowerment of unions in Denmark, *European Journal of Political Research*, 53 (2), 404-421.
- Klos M. (2015) Medlemsudviklingen i a-kasserne: 2. Kvarter 2015, København, AK samvirke. https://www.ak-samvirke.dk/files/dokumenter/nyheder/medlemsudvikling_2_kvrt_2015.pdf
- Kongshøj Madsen P. (2006) How can it possibly fly? The paradox of a dynamic labour market in a Scandinavian welfare state, in Campbell J.L., Hall J.A. and Pedersen O.K. (eds.) *National identity and the variety of capitalism: the case of Denmark*, Montreal, McGill University Press, 323-355.
- Kristensen P.H. (2013) The distinctiveness of Nordic welfare states in the transformation to the projective city and the new spirits of capitalism, in du Gay P. and Morgan G. (eds.) *New spirits of capitalism? Crises, justifications, and dynamics*, Oxford, Oxford University Press, 206-232.
- Kristensen P.H. and Lilja K. (2011) *Nordic capitalisms and globalization: new forms of economic organization and welfare institutions*, Oxford, Oxford University Press.
- Lorentzen A. (2011) Atypisk ansattes retsstilling efter lovgivning og overenskomst, in Scheuer S. (ed.) *Atypisk ansatte på det danske arbejdsmarked, Dokumentation 1/2011*, København, Landsorganisationen i Danmark (LO), 73-156.
- Rasmussen S., Refslund B. and Sørensen O.H. (2015) Reducing precarious work in Europe through social dialogue: the case of Denmark (1st part of National Report), Aalborg, Aalborg University. <http://www.research.mbs.ac.uk/ewerc/Portals/0/Documents/denmark-national-report-part-1.pdf>
- Refslund B. (2016) Intra-European labour migration and deteriorating employment relations in Danish cleaning and agriculture: industrial relations under pressure from EU8/2 labour inflows? *Economic and Industrial Democracy*, 37 (4), 597-621.
- Refslund B. and Sørensen O.H. (2016) Islands in the stream? Challenges and resilience of the Danish industrial relations model in a liberalising world, *Industrial Relations Journal*, 47(5-6): 530-546.
- Vartiainen J. (2011) Nordic collective agreements – a continuous institution in a changing economic environment, in Mjøset L. (ed.) *The Nordic varieties of capitalism*, Comparative Social Research 28, Bingley, Emerald Group Publishing, 331-363.

[Accessed 22/11/2016]