

The David Hume Institute is a charity committed to independent, non-partisan, evidence-based research to inform policy development.

In September 2019, the Institute published a report “*Who will do the jobs?*” which examined the labour market in Scotland. This report mentioned the recommendation from the Sustainable Growth Commission, that Scotland could learn from the approach Denmark has taken to its labour market. The following briefing examines the Danish labour market and their model of Flexicurity in more detail.

Introduction

Denmark combines high levels of social protection, low levels of unemployment and strong coordination between highly representative trade union and employer confederations.

However, Denmark’s economic development has been very different from Scotland’s not least in the management of the labour market. Denmark’s modern labour market is the result of numerous policy interventions since the 1960s. Significant institutional changes would likely be required for Scotland to attempt to replicate the Danish model, regardless of the constitutional position.

The Danish Flexicurity Model

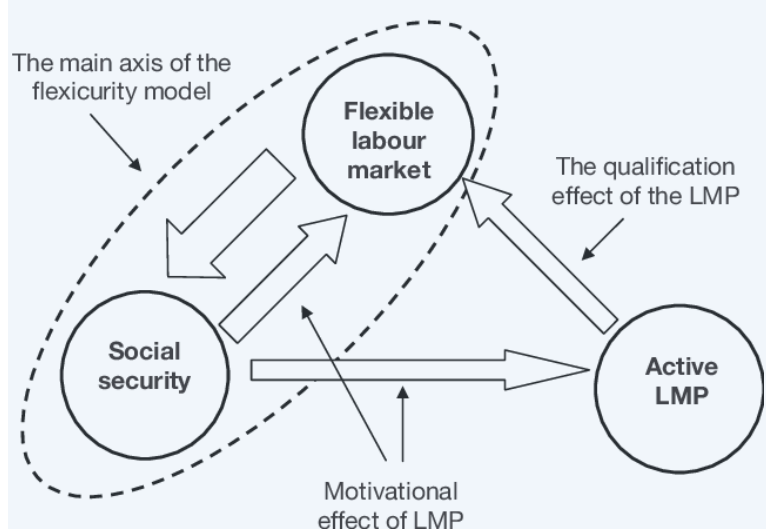
Since the early 1990s, Denmark’s labour market has operated as a model of Flexicurity, which combines a relatively flexible labour market, active labour market policies (LMP) and a strong welfare state providing relatively generous unemployment benefit.

The term *Flexicurity* was coined in the 1990s by the then Danish Prime Minister, Poul Nyrup Rasmussen but has its roots in the 1960s when a series of labour market reforms established a version of the “Ghent system” in Denmark. This implemented a voluntary social insurance system with unemployment benefits administered by trade unions. Alongside this, employers experienced greater flexibility as they are able to increase or decrease their workforce with relative ease and at speed in order to respond to circumstances and workers experience security through generous unemployment benefits.

Components of the Flexicurity Model

There are three components which combine to make up the Flexicurity model.

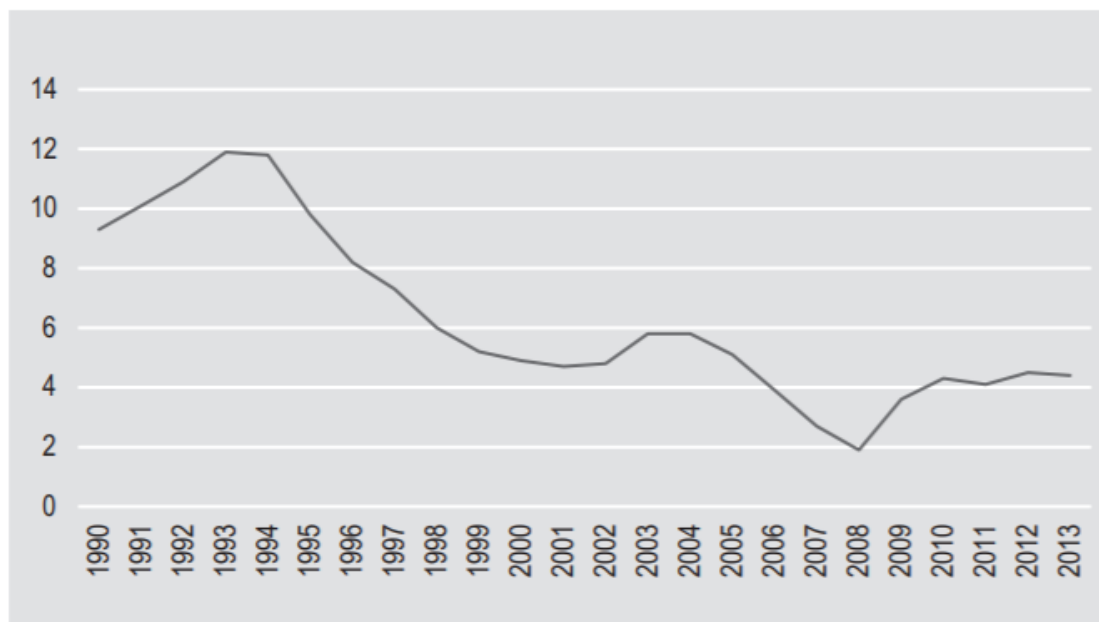
- Flexible labour market: this provides employers with the ability to increase or decrease their workforce with relative ease and at speed in order to respond to circumstances.
- Easy access to social benefits: easily accessible and relatively generous unemployment benefits are crucial to ensuring security for workers
- Active labour market policies: training programmes and other interventions suited to the needs of local employment markets such as encouraging life long-learning



Other reforms during the 1970s and 1980s provided the basis for the Flexicurity model. The extension of childcare enabled more women to enter the labour market and the pursuit of active labour market policies to tackle unemployment, ensured there would be greater acceptance of the additional flexibilities for employers. The model continued to evolve throughout this period and, with the election of a Social Democratic Government in 1993, the model took another step forward.

Majority governments are rare in Denmark, but the Social Democratic Party held power with a majority of one and used it to pursue a series of tax and labour market reforms. Having experienced 15 years of high unemployment, the new Government took power with the intention of increasing employment. The policies put in place prioritised active labour market policies, decentralised the management of the labour market to regional councils (discussed in more detail in the next section) and re-oriented the approach to focus on the needs of the unemployed person and the gaps in the local labour market. The policies pursued by the Danish Government at this time, resulted in a significant decrease in unemployment which was largely sustained after the 2008 financial crisis.

Figure 1: The Danish net-unemployment rate 1900-2013 (percentage)



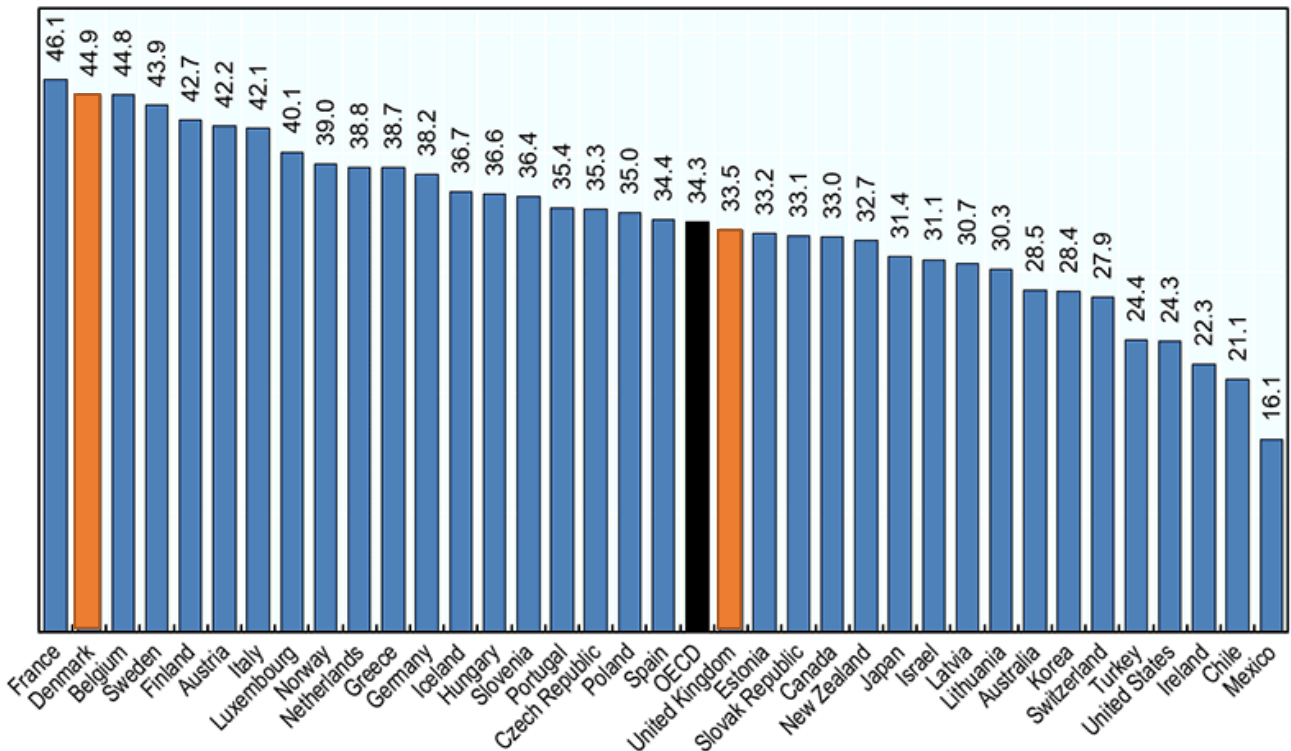
Note: The net-unemployment rate is based on data from administrative registers and counts the number of non-activated people receiving unemployment benefit or social assistance.

Source: Statistics Denmark (2014).

All these interventions, in particular the active labour market policies, have required significant spending by Government.

Regardless of party, Denmark has consistently collected a greater share of its GDP in tax revenues, which has enabled this level of public spending. Around 45-50% of GDP is collected in tax revenues, against a European average of 40% and 34% in the UK. There has been cross-party consensus in Denmark for decades around commitment to public spending through higher than average levels of taxation.

Figure 2: Tax to GDP ratios in OECD countries, 2018



Note: Preliminary data for 2018 were not available for Australia and Japan.

Active Labour Market Policies

Active labour market policies are designed to help unemployed people find work or to provide them with the necessary skills to be more successful in the labour market. Denmark spends considerably more than the UK on active labour market policies, with 3.28% of GDP dedicated to them, as opposed to 0.59% in the UK.

Active labour market policies sit within the wider range of labour market policies that may be used by a Government seeking to address unemployment. These can be split into:

- ‘Measures’ such as training, employment incentives or direct job creation
- ‘Supports’ such as unemployment benefits and
- ‘Services’ such as guidance and counselling.

It is the ‘measures’ that make the biggest difference and distinguish Denmark from other labour markets.

Institutions Underpin the Flexicurity Model

The Flexicurity model did not emerge complete and it is not a fixed entity. Instead, it was the result of a gradual evolution over 30 years. From the involvement of the trade unions in the “Ghent system” to the decentralisation of active labour market policies through regional labour market councils. The Flexicurity model is underpinned by several strong institutions.

Trade Unions and Employer Organisations

Denmark has very strong trade unions and employer organisations. In 2017, 82% of Danish workers were covered by a collective bargaining agreement, compared to an OECD average of 32%. In 2017 trade union membership stood at 67%, compared to less than 30% in Scotland. High levels of trade union membership are

common for countries operating under the Ghent system, where bodies linked to trade unions have some level of responsibility for the administration and payment of unemployment benefits.

Employer organisations are also well developed and benefit from large memberships. 68% of employees work in a business affiliated with an employer organisation, compared to only 30% in the Scotland. The presence of strong trade unions and employer organisations means terms and conditions are often secured without the need for formal legal protections as there is acceptance that collective bargaining is in their mutual interest.

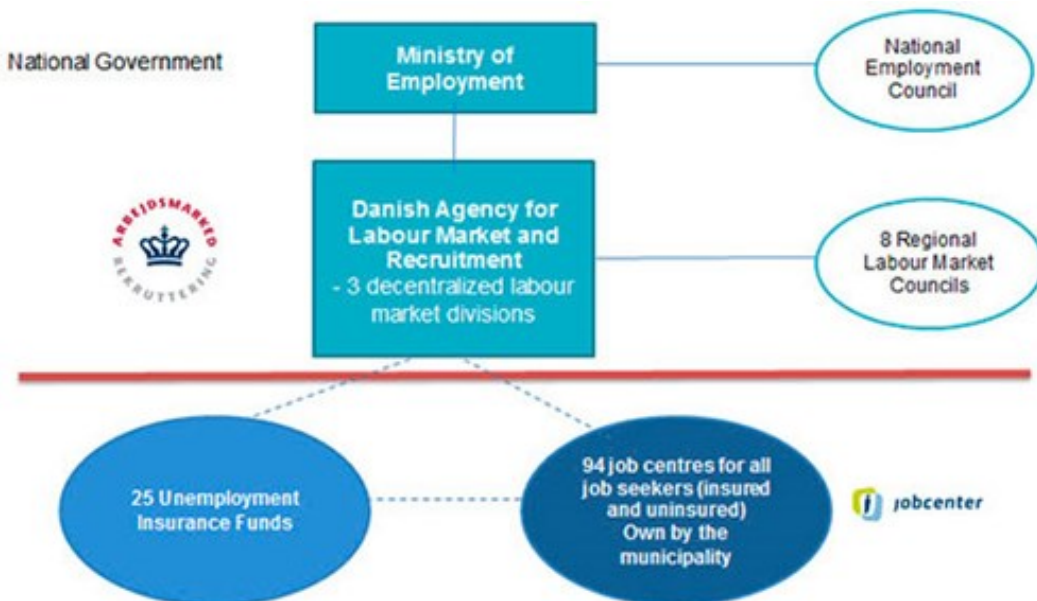
Denmark does not have a national minimum wage. Higher wages have been secured through collective bargaining at a national level which provides the basis for negotiation at a company level. The current EU consultation regarding a common framework for setting minimum wages in EU member states has resulted in the Danish Government seeking written guarantee that the collective bargaining arrangements in Denmark will be exempt from any new directive

Decentralised employment policies to Local Employment Councils

One of the hallmarks of the reforms of the 1990s was the decentralisation of employment policies to enable regional labour market councils to better design policies for their own local areas. Central Government would set out the national framework and the basic rules, while implementation would be left to the municipalities.

In 2007, the Danish Government reformed local government to create 98 municipalities and in 2009 municipalities took responsibility for local job centres, with the newly established Danish Agency for Labour Market and Recruitment, providing oversight at a national level.

The decentralised nature of the system allows the needs of the local labour market to be reflected in plans for individual job seekers and for local social partners (such as trade unions and employer organisations) to be involved. As has been noted by others, the general trend towards more corporatism in Denmark is at odds with other European countries.



Trust

Denmark has a very high level of social trust and satisfaction with democracy. In 2018, 90% of the population expressed satisfaction with democracy, compared to just 61% in the UK.

Comparative studies of labour market policies in Europe show social trust is critical to the Flexicurity model. Much of the system relies on trust – between employers and workers, between Government and the social partners, or between the Government and workers. Trust is important for the success of collective bargaining and negotiations over other terms and conditions. The lack of a nationally mandated minimum wage in Denmark is symptomatic of a system that relies on high levels of trust.

Learning Lessons from Denmark

There is much in the Danish model that could be appealing for policy makers in Scotland to adopt. The following is an overview of the relevant labour market policy in Scotland before examining what policies could be adopted in the short and long-term.

Scottish Labour Market Policies

The UK labour market and labour policy has evolved away from the European social democratic model since 1979. Sectoral collective bargaining is weak in comparison to Denmark and labour market policies cross institutional boundaries for instance, Skills Development Scotland, the enterprise agencies and Job Centre Plus.

The Scottish Government has attempted to bring about more social partnership (through the Fair Work agenda and other programmes) and recognises the value of collective bargaining in the National Performance Framework.

Investment in labour market policies are largely done through Job Centre Plus. However, the Scottish Government has undertaken work in this area too, including the Future Skills Action Plan and earlier Labour Market Strategy as well as employment support programmes such as Fair Start and Community Jobs Scotland. The Scottish Government has also indicated a change of approach in the way that new Scottish welfare powers will be implemented but it is too early to tell what affect that will have.

Challenges with the Danish Model

The primary challenge when considering the Danish model is the fundamentally different nature of Danish and Scottish/UK institutions. Flexicurity represents a bargain between employers, workers and Government, underpinned by institutions and a high level of trust. The model is enabled by higher taxes in Denmark but there is public understanding of the link between the services which provide support and security and the tax paid.

Scotland's and Denmark's labour markets have different characteristics. Without the institutions and high levels of trust it would be difficult to initiate a similar bargain in Scotland. Scotland also has a different relationship with minimum wage than Denmark as is evident from recent Denmark/EU discussions.

Moving Towards a Danish Model

Labour market policies are largely the responsibility of the UK Government under the devolution settlement, however, more powers over back-to-work schemes and welfare have been devolved to the Scottish Parliament in recent years. Even with more powers over these areas, there would still be a significant challenge to introducing a Danish style model in Scotland: the lack of relevant institutions; the culture of bargaining and the public willingness to move towards a more supportive system is limited by people's willingness to pay for it. However, there are still elements of the system that could be adopted.

Trade unions and employer organisations are less well-resourced than their Danish counterparts. The Scottish Government could prepare for change by helping to rebuild the institutions that are the cornerstone of the Danish model. A starting point could be investing in building the capacity of trade unions and employer

organisations by funding European style research institutes that work alongside them to inform and influence the public policy debate.

Stronger institutions and a greater role for them could enable the Scottish Government, even under the current constitutional settlement, to establish Irish style social partnership agreements. Social Partnerships played a valuable role through the 'good years' of Ireland's development (1987-2011). This could bind social partners into common goals and help to create a shared sense of mission between Government, workers and employers. This would require a high level of willingness and trust from social partners and Government in order to succeed.

Finally, the Scottish Government could establish a formal role for trade unions and employer bodies in the training system. While training is often seen as the responsibility of government through organisations such as Skills Development Scotland, encouraging trade unions and employer organisations to take more responsibility for equipping people for work would provide an important role and help to re-establish their place in the economy of Scotland.

Conclusion

The Danish Flexicurity model represents a system that provides benefits to workers, employers and businesses as well as impacting on the social fabric of the country. It is understandable why policy makers across the world are interested in it.

For Scotland, regardless of Scotland's constitutional settlement, Flexicurity would be difficult to implement in practice, although it could be a long-term objective if there was political consensus.

In the short term, elements of the model could be adopted. It would require a long-term commitment and significantly increased public spending alongside the 'reinstitutionalisation' of the labour market to make it a success. Any attempt to adopt a Danish model would also need a high level of trust between the Government and social partners, which would only come with time and a change of culture in the country's approach to workers' rights and broader labour market policies.

Ends

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