

Can the Danish model of “flexicurity” be a matrix for the reform of European labour markets?

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ABSTRACT:

During the last years, there has been a growing interest all over Europe for the Danish “model” of flexicurity. The Danish combination of flexibility for the employers and security for the employees and the populations would be an example to follow, mainly because of the successes met in the fight against unemployment during the 1990’s.

This paper takes a close look at the core elements of the Danish case to determine whether these views are relevant. The three elements of the Danish “golden triangle” are a flexible labour market, a generous welfare system, and an active labour market policy. These elements are analysed, as well as the 1993 labour market reform, which is supposed to have triggered the remarkable decrease of unemployment that took place in Denmark since 1997. The core features of the Danish case are examined to determine whether the Danish model could be, as the European Commission suggests, a matrix for the reform of the European labour markets.

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1. Introduction

During the last years, there has been a growing interest all over Europe for the Danish “model” of flexicurity on the labour market. Since 1995 and the praise of the Danish job strategy by the OECD, the idea that Denmark would be an example to be followed to reform labour markets is now widespread amongst politicians and economists. For example, the OECD annual economic and employment outlooks (OECD (2004a, 2004b, 2005a, 2005b) often refer to the Danish case as one of the most commendable examples for other countries. The European Commission is also involved in this widespread view, since it refers, explicitly as well as implicitly, to the Danish example as desirable matrix for the European employment strategy. The first document to refer to the Danish “flexicurity model” as an example to follow was the 1993 Delors White Paper. Since then, the references to flexicurity are multiple in the documents edited by the European Commission. For example, amongst the 23 “integrated guidelines for growth and jobs (2005-2008)¹”, that the Commission intends to promote (eight of which are dedicated to employment), there is the will to “promote flexibility combined with employment security and reduce labour market segmentation” (guideline 20).

That enthusiasm may be encouraged by the fact that the Danish model is often presented, in the economic literature, as an accurate answer to what Wilhagen and Tros (2003) call a “double bind” that all countries, in the current context of globalization, would have to face. On the one hand, they have to meet the calls for more flexibility stemming from the employers, in order to face up the challenges of the world competition. On the other hand, there are strong demands for more security, coming from the employees and the populations. The Danish combination of security and flexibility, seen as a convincing and promising “success story”, would be the most optimal manner to reach both of these goals jointly.

Undoubtedly, the Danish case is clearly a “success story” concerning unemployment: the unemployment rate has decreased from 9.6 % in 1993 to 4.3 % in 2001², and this rate is

¹ According to the European Commission’s website, the integrated guidelines for growth and jobs are intended to “bring together, in a single, coherent and simplified text, the Commission's recommendations on the [Broad Economy Policy Guidelines](#) (BEPGs) and the proposals on employment guidelines for the period 2005-2008. They are the principal policy instrument for developing and implementing the Lisbon Strategy.” Source: <http://europa.eu.int/scadplus/leg/en/cha/c11323.htm>

² All unemployment figures given in this paper refer to the standard definition of unemployment, as given by the International Labour Organisation. The Danish definition of unemployment being less restrictive, the local

oscillating around 5 % since 1997³. All the same time, the Danish employment rate is stable, around 75 % of the active population. This is all the more remarkable than these successes have been obtained along with macroeconomic results that may be seen by many economists as signs of health of the economy as a whole. First of all, there are no inflationary pressures, neither on wages, nor on prices. The external balance of payment is also positive almost every year. Moreover, whereas Denmark is one of the countries in the world where the public expenditure as a percentage of GDP is one of the highest⁴, there are raising surpluses for public budgets. Even if the Denmark has chosen to remain out of the Euro zone⁵, all the criteria of the “Stability and Growth Pact” are met.

Therefore, it might be worth taking a closer look at the Danish labour market system to examine its core elements, and to determine whether there are recipes that could, as a growing number of discourses suggest, be exported. This paper intends to bring some elements of answer to these issues.

For doing so, the remainder of the paper is organized as follows. Section 2 examines successively the Danish “golden triangle” as a whole, and the three components of this triangle: the flexible labour market, the generous welfare system, and the active labour market policy. Section 3 takes a closer look at the measures of the 1993 labour market reform, which is said to have triggered the remarkable decrease of unemployment that took place in Denmark since 1997. Section 4 assesses the exportability of the Danish flexicurity system in other European countries. Short concluding remarks are made in section 5.

Danish measures of unemployment are higher (by approximately 2 %). This is very unusual: generally, the definitions are more restrictive (as in the case of Netherlands for example).

³ The unemployment rate was 5.4 % in 2004. Source: OECD (2005a).

⁴ In 2003, the share of the public expenditure as a percentage of the GDP was 56 %, the highest in the world just after Sweden (58 %). Source: OECD, 2004b

⁵ Denmark, in a September 2000 referendum, reconfirmed its decision not to join the 12 other EU members in the Euro-Zone. Nevertheless, the Danish currency remains pegged to the Euro by the “ERMII” mechanism. Whereas currencies in ERM II are allowed to float within a range of $\pm 15\%$ with respect to a central rate against the euro, in the case of the Krone, the Danish central bank keeps the exchange rate within the narrower range of $\pm 2.25\%$ against the central rate of EUR 1 = DKK 7.460 38. The Danish central bank is independent by long standing tradition, as set out in the “Danmarks Nationalbank act” of 1936.

2. Flexicurity and the Danish “golden triangle”

The Danish way of answering to the “double bind” outlined in the introduction is what many economists have called the “flexicurity nexus”. Obviously, the word “flexicurity” is the contraction of the words flexibility and “security”, and points out to forms of labour market regulations that provide security and flexibility *in the same time*. Even though some labour markets have been characterised by flexicurity for many years, the concept was first coined and gained wide recognition in the mid-1990s. Following Andersen and Mailand (2005, p9), “this is probably no coincidence since the concept of flexicurity to a large extent matches the ambitions expressed in the Delors White Paper on growth, competition and employment from 1993 and the European Employment Strategy to create an economy that is both efficient and competitive, but at the same time characterised by high employment, social security and inclusion.”

The definitions of “flexicurity” vary amongst authors. Wilhagen and Tros (2003, p4) define flexicurity as “a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of the labour markets, work organisation and labour relations on the one hand, and to enhance security – employment security and social security – notably for weak groups in and outside the labour market on the other hand.” According to this definition, two conditions must be fulfilled to talk about “flexicurity”. Firstly, flexibility and security must be the result of deliberate and coordinated efforts, rather the one of isolate initiatives or chance. Secondly, flexicurity must also include disadvantaged groups on the labour market, and should not only focus on the labour market insiders.

In the Danish case, the key elements of the flexicurity system can be summarized by the “golden triangle” devised by Madsen (2002), and illustrated in figure 1. Madsen (2002) summarizes the Danish flexicurity system by outlining the “unique combination” of three elements: the very flexible labour market, the active labour market policy, and the generous welfare system. The arrows indicate flows of persons between different positions within the labour market, the welfare system and the labour market programmes. The two arrows linking the labour market and the welfare system indicate that around a quarter of the people in work are affected by unemployment every year, but that the great majority of these people find a new job very quickly. The other arrows show that the people who do not go back rapidly into

employment enter the active labour market programs, which helps most of them finding another job.

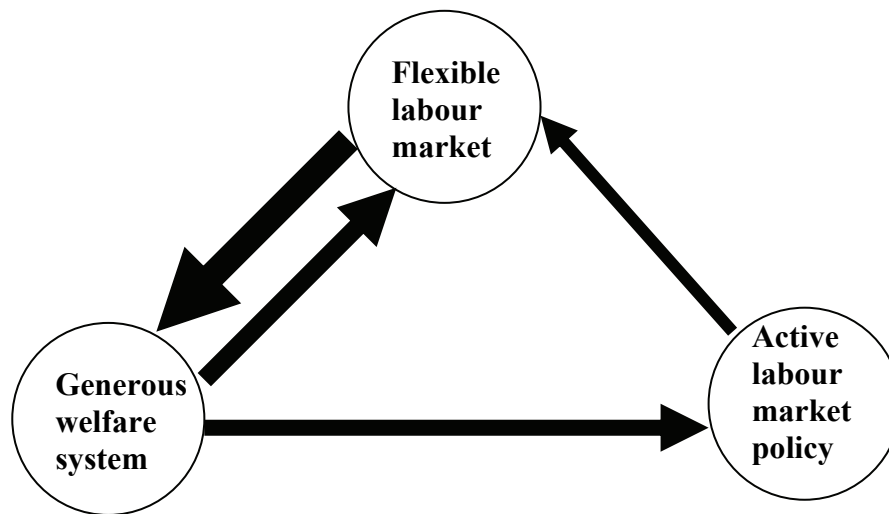


Figure 1: The Danish “golden triangle”

Now we turn to a closer examination of each of the three elements of the “golden triangle”: the flexible labour market, the generous welfare system, and the active labour market policy.

A very flexible labour market

All studies led on flexibility in the Danish case think along the same lines to say that flexibility, in Denmark, is very high. The Danish form of flexibility can be characterized mainly as a form of external numerical flexibility, which means that, for employers, it is very easy to hire and fire employees⁶.

This flexibility is the expression of the very low level of regulation of the labour markets. A clear account of this is given by the indexes of flexibility computed in a recent study published by the World Bank (2003). Amongst all members of the European Union, including the latest countries that have joined the Union, Denmark has top rankings for all criteria computed by the international financial institution: it is ranked second concerning the flexibility of hiring, first for its conditions of employment, and third considering the

⁶ Anyway, internal numerical flexibility (working hours, overtime, part-time work, etc.); functional flexibility (multi-employability, flexible organization of work); as well as wage flexibility (performance or result-based pay) are also present on the Danish labour market. See Andersen and Mailand (2005) for a close study of the forms of flexibility at work in the Danish labour market.

flexibility of firing. The “employment law” column, which is supposed to summarize the three other criteria, even indicates that the Danish labour market is the most flexible amongst the EU member states. Considering the complete classification established by the World Bank, amongst 130 countries from all around the world, the Danish labour market is even ranked as the third most flexible one, with the same score as Malaysia, and just behind the United States and Singapore.

Flexibility of hiring		Conditions of employment		Flexibility of firing		Employment laws	
Czech Republic	17		25	United Kingdom	9		25
		<i>Denmark</i>				<i>Denmark</i>	
	33	Norway	39	Austria	14	United Kingdom	28
<i>Denmark</i>							
United Kingdom	33	Sweden	39		17	Austria	30
				<i>Denmark</i>			
Austria	33	Austria	41		22	Czech Republic	36
				<i>Belgium</i>			
Belgium	33	United Kingdom	42	Hungary	23	Norway	41
Poland	33	Finland	43	Norway	25	Sweden	42
Slovakia	34	Germany	46	France	26	Belgium	48
Hungary	46	France	61	Czech Republic	27	Ireland	49
Ireland	48	Italy	62	Ireland	30	France	50
Nederlands	51	Czech Republic	63	Lithuania	31	Germany	51

Table 1: Indexes on the Employment Regulation – The ten most flexible EU-countries⁷

Source: The World Bank (2003, p36), in Andersen and Mailand (2005, p.6)

This flexibility is also outlined by the OECD (2004a), in its calculus of the Employment Protection Legislation (EPL) indexes (see table 2). For each country, the EPL index is supposed to give a measure not only of relevant legislation on the labour market, but also of the collective agreements and other contractual relationships, as well as the judiciary practices. According to this index, in 2003, Denmark is clearly one of the countries with the lowest employment legislation level in the whole OECD.

⁷ Indexes range from 0 to 100, with higher values indicating more-rigid regulation. The Employment-laws index is the average of the flexibility-of-hiring, conditions of employment, and flexibility-of-firing indexes.

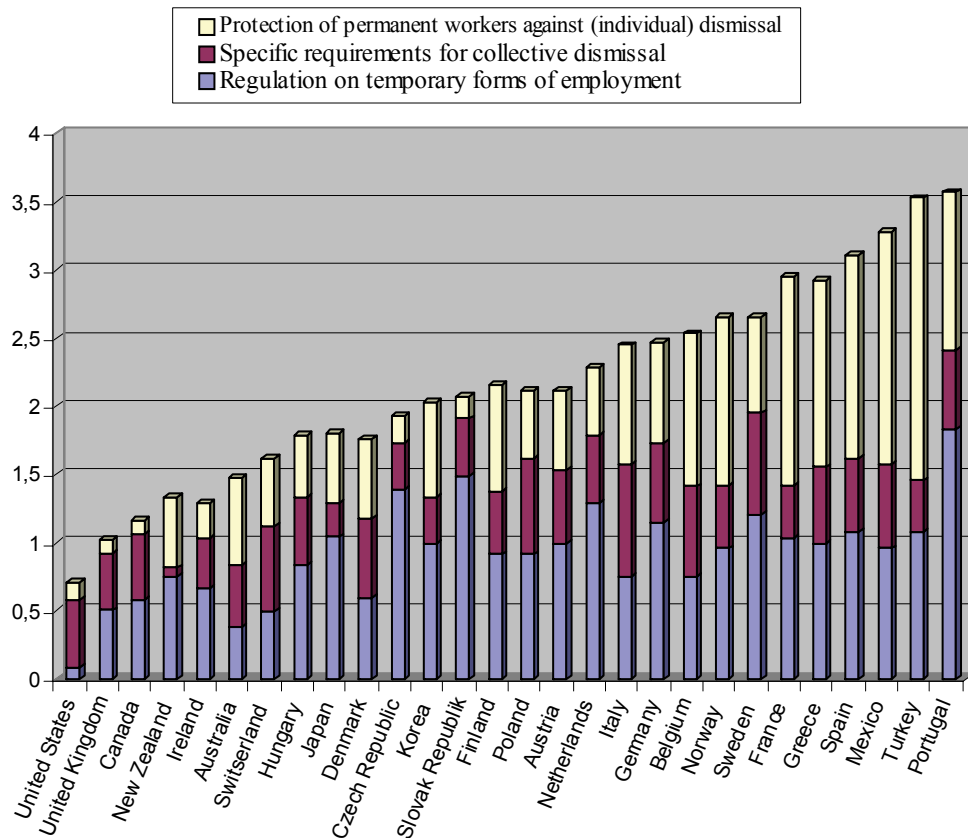


Table 2: The Employment Protection Legislation index
Source: OECD (2004a)

Both of these rankings reflect some important characteristics of the Danish labour market: a very short notice of termination, relatively long trial periods, and low compensations for dismissals.

Unsurprisingly, the result of this flexible legislation on the labour market is a high degree of job mobility: on average, the worker turnover is stable, around 30 % a year, and the level of job turnover (job creations and destructions) has been estimated around 12 % a year (Madsen (2002)). Moreover, 20 to 25 % of the workforce is affected by unemployment every year, but the majority returns to employment very quickly. Following Auer and Cases (2003), the mean tenure is also very low, since it reaches 8,3 years, a figure very close to the mean tenure in the United Kingdom (8,2 years). Another result of this flexibility is what Schumpeter would have called a high pace process of “creative destruction”: around 250 000 jobs disappear every year, but a similar number of jobs are created (Andersen and Mailand (2005))

A key aspect of the labour market helping explain the high degree of flexibility is that the state intervention in the labour market is very limited, and that the system is managed by the “social partners”, that is, by the employers’ organisations and the labour unions. In the Danish system, there is almost no work legislation and the agreements are discussed by the employers and the labour unions at a rather decentralized level. In the bargaining process, the intervention of the state is presented as a threat if the partners do not come to an agreement: if the state has to intervene, the unions as well as the employers’ organizations would loose. This limited intervention of the state is possible because labour unions are very representative of the workers, since 80 % of the working population is unionized, which gives the main Danish labour union, LO (*Landsorganisationen I Danmark*), a strong bargaining power. The main employers’ organisation, DA (*Dansk Arbejdgiverforening*) is also representative, and has also a genuine bargaining power.

It is important to insist here that the flexibility of the Danish labour market is by no means new. Indeed, as outlined by Andersen and Mailand (2005, p.12), “over the past 50 years, there have been no significant changes in the Danish rules and regulations on dismissals.” And looking at the figures, the main characteristics and indicators given in the present section have been very stable over time.

Last, in a rather paradoxical and surprising way, the high degree of flexibility outlined in this section does not lead the Danish employees to a widespread feeling of insecurity. On the contrary, all surveys lead about that subject reach the conclusion that, in general, the Danes find that their job is secure, and the feeling of job insecurity is lower in Denmark than in other European countries (see for example OECD (1997)). This is the case not only because the perception of situations in terms of precariousness is unsuitable to other countries than the Latin ones (Barbier and Lindley (2002)), and because most of the Danes who loose their jobs go back into employment rather quickly, but also, and before all, because of the security provided by the generous welfare system.

A generous welfare system, that provides security

The generosity of the Danish welfare system is seen by the Danes as a counterpart of the high degree of flexibility outlined above. Without that welfare system, the employees as well as the trade unions would be less prone to accept the high degree of flexibility described above.

The security provided to the workers mainly takes the form of the unemployment insurance system, which is run principally by private, but state-funded, insurance funds. The great majority of these funds are close to the labour unions. Subscribing to these insurance funds is optional, which does not prevent the overwhelming majority of workers from subscribing to them.

When getting unemployed, the great majority of members of these funds receive around 90 % of their previous income during the previous 12 weeks, in the form of unemployment benefits. Nevertheless, a ceiling is set at 400 euros a week. The level of the unemployment benefit relatively to the previous wage can vary with the family situation as well as the level of the previous wage level (see table 3). Contrarily to what happens in most of the benefit systems in other countries, there is no waiting period in the Danish case: unemployment benefits can be claimed from the first day of unemployment on. The duration of the compensation period is four years, and the compensation level is rather stable with time (there is no important decrease or increase of the benefits).

	Single	Married couple	Couple, 2 children	Lone parent, 2 children
APW-level, first month of unemployment	63	63	73	78
APW-level, after 60 months of unemployment	60	69	80	79
2/3 of APW-level, first month of unemployment	89	89	95	96
2/3 of APW-level, after 60 months of unemployment	85	96	102	97

Table 3: Examples of the net replacement rates, depending on the former income level and the family situation⁸. Source: OECD (2002).

During the first 12 months (6 months for young unemployed under the age of 25), the unemployed have no obligation to take part in the active labour market program, even if they are required to be actively seeking a job. After this period, the system proposes a mandatory full-time activation.

To be eligible for the system, a person must have worked 52 weeks during the last 36 months. For part-time workers, the required period is 34 weeks. For the persons who do not

⁸ The APW-level is the income of the “average production worker”. The figures given are in percent, for 1999.

meet these conditions, or for those who did not subscribe to the insurance system, there are other compensation systems, mainly city-based. Anyway, these compensation systems are far less generous than the one run by the insurance funds, the loss of income for the average production worker after one year of unemployment being estimated by Barbier (2005b) around 60 % in 2001. Last, the welfare system also helps living the people who, for one reason or another, are out of the labour force. These people represent around one quarter of the Danish population, and are helped in multiple forms, amongst which social aid.

All these welfare measures prevent the Danes from falling into poverty, which is particularly clear when looking at the risk rate of poverty⁹ computed by Eurostat (2005), the statistical office of the European Communities. Indeed, following Eurostat, the risk rate of poverty before social transfers in Denmark was 29 % in 2001, which is relatively high as compared to the other developed countries. After social transfers, that risk¹⁰ falls to 10 %, which is a bit lower than estimated risk for most of the other European countries.

An intensive labour market policy

The intensive labour market policy can be seen as a counterpart of both flexibility and security. It is a counterpart of the high degree of flexibility on the labour market insofar as the active market labour policy is intended to help the Danes finding jobs more quickly when they lose their previous one. The “counterpart” aspect of the security provided by the generous welfare system is the duty to search actively a job and to accept to be helped for that by the institutions in charge of the labour market policy. This is not too difficult for the Danes as it is seen by the vast majority of them as a crucial element of the “social contract”.

The figures of the expenses dedicated to the employment policy are very significant as to how the Danes see employment as a top-level priority. During the last years, the share of

⁹ Eurostat (2005) defines the risk rate of poverty before social transfers as the proportion of persons whose equivalent disposable income before social transfers is below the threshold of poverty risk, set at 60 % of the equivalent median national disposable income (after social transfers). The retirement and survival pensions are included in the income before transfers and not in the social transfers.

¹⁰ Eurostat (2005) defines the risk rate of poverty after transfers as the proportion of persons whose equivalent disposable income is below the threshold of poverty risk, set at 60 % of the equivalent median national disposable income.

labour market policy in the GDP in Denmark goes constantly around 4.5 %, which is the highest in the world, far beyond all other countries. Amongst these expenses in the labour market, the active measures represent around 40 %. Two main functions are assigned to the active labour market expenses. Firstly, they are supposed to increase the employability for the unemployed who do not return to employment quickly, mainly through training programs. Secondly, by checking their availability for work, the active labour market policy is intended to push the unemployed to search for jobs actively.

Program categories	Denmark	Sweden	Germany	France	U. K.	U.S.A
PES ¹¹ and administration	0.21	0.24	0.28	0.25	0.34	0.04
Training	0.52	0.37	0.40	0.31	0.14	0.05
Employment incentives	0.49	0.15	0.11	0.08	-	-
Integration of the disabled	0.52	0.48	0.15	0.09	0.03	0.03
Direct job creation	-	-	0.12	0.35	0.01	0.01
Start-up incentives	-	0.04	0.08	-	-	-
Total active measures	1.74	1.28	1.14	1.08	0.53	0.16
Out-of-work income maintenance and support	1.91	1.22	2.27	1.67	0.37	0.37
Early retirement	0.77	-	0.04	0.11	-	-
Total passive measures	2.68	1.22	2.31	1.78	0.37	0.37
Total LMP expenditure	4.42	2.50	3.45	2.85	0.89	0.53

Table 4: public expenditure in labour market programmes (% of GDP) in 2003 (Denmark, France, Germany and Sweden), and 2003-2004 (United Kingdom and United States).

Source: OECD (2005a)

The key figures concerning the labour market policy expenses are given in table 4. The Danish active labour market policy expenditure in 2003 represents 1.74 % of the GDP, whereas it is 1.28 % in Sweden, 1.14 % in Germany, 1.08 % in France and much more lower in more “liberal” economies, since the figure drops to 0.53 % for the United Kingdom and even to 0.16 % in the United States. Amongst these active labour market expenses, the most important budget item is the training programs for the unemployed, and for the workers who may potentially loose their jobs: Denmark dedicated 0.52 % of the of GDP to these programs

¹¹ Public Employment Service.

in 2003, whereas the same figure is 0.40 % in Germany, 0.37 % in Sweden, 0.31 % in France, and drops to 0.14 % in the UK and even 0.05 in the United States.

As illustrated by the third line of table 4, training programs for the unemployed and for people who may become unemployed is an important part of the explanation of the Danish “success story” in the field of unemployment. Another illustration of this important aspect of the Danish case is given by a survey lead in early 2003 in the EU-15 plus Norway and Iceland. This survey outlines that half the Danish active population said to have taken part in supplementary training or education over the past 12 months (Andersen and Mailand (2005, p.14)).

These training expenses can be seen as result of a political and societal will to refuse wages inequalities: the Danish governments and population do not want the open the salary range to the bottom, and the training programs are viewed as a better solution to the unemployment of low skilled workers (Freyssinet, 2000, p.183).

An important remark to be made at this point is that, if flexibility and the welfare system have a long history in Denmark, and the share of the passive measures in the GDP is nothing new because of the generous welfare system, the active labour market programmes have a much more recent history: the active measures have gained ground throughout the last fifteen years, particularly since the 1993 labour market reform.

3. The 1993 labour market reform

The 1993 labour market reform, which came into force in January 1994, has been the subject of a lot of international attention, especially from the OECD and the European Commission, mainly because of the spectacular reduction of the unemployment rate that has followed its implementation.

The reform has been prepared and favoured by various factors. First, the results of the previous active labour market policies were rather poor. Between 1979 and 1993, these policies consisted mainly in a program of job offers, training and support for the unemployed, in order to help them to start in self-employment. Secondly, during the late 1980s and the 1990s, one of the outcomes of the discussions on the labour market, which focused mainly on the negative consequences of passive and extensive employment schemes, was that cuts in the unemployment benefit level were not politically feasible. Nevertheless, these discussions led to the creation of the *tripartite Zeuthen committee*, who made a number of policy

recommendations which were taken into account when designing the reform. Thirdly, there was an important increase of unemployment at the beginning of the 1990, which put some pressures for action, and that helped the newly elected social-democratic government to find broad support for a reform of the labour market.

The main elements of the 1993 labour market reform can be classified in three main categories: the reform of unemployment benefits and the active labour market policy, the reform of the Public Employment Service (PES), and the introduction of the paid leave schemes.

The reform of the PES mainly consisted in the decentralisation of policy implementation to regional labour market councils (which are assigned the role to adapt the programme to the local needs) and the reinforcement of tri-partite nature of the PES. The reform of the unemployment benefits and the active labour market policy consisted, as for it, in three measures: the introduction of a two-period benefit system, with an initial “passive period” (of four years) followed by an “activation period” (of three years); a change from a rule-based assistance system, for the long-term unemployed, to a system where individual needs are assessed; and the ending of the connection between vocational training and the unemployment benefit system (employment with a wage subsidy no longer increases the duration of the period for which the unemployed are eligible for unemployment benefits). Last, the introduction of three paid leave schemes (childcare, education and sabbatical leave), for the employed persons as for the unemployed, was intended to encourage job rotation, while pushing momentarily¹² out of the labour force a significant part of the population. Educational leave was initially compensated at 100 %, and the two other schemes at 80 % of the unemployment benefit rate.

Since 1994, many changes of the 1993 measures have been undertaken, amongst which the most important ones are the progressive reduction of the “passive period” of unemployment to one year, and the “active period” to three years. The possibility for taking leaves has also been progressively limited. In 2001, the sabbatical and educational leave schemes have even been abolished, but parental leave still exists. In 2003 and 2005, the rights for maternity leaves have even been extended. Last, in 2003, a new labour market reform has reduced the number of training possibilities for the unemployed, and the active labour market

¹² The duration of the leaves could go up to one year.

policy insists more on the guidance and contact meetings and on subsidised job training. Nevertheless, the increase of the unemployment rate and the problem of outsourcing have forced the centre-right government to expand the training programs, mainly for low-skilled and unskilled workers.

In all cases, there is no consensus in the literature about the amount of the reduction of the unemployment rate that is due to the various measures of the 1993 labour reform examined above, and the part due to the environment where these measures have been taken in. The relative impact of each of the measures and of the environment on unemployment is difficult to assess. In particular, the progressive implementation of these measures was accompanied, from 1993 up to 1998 at least, by an internal demand stimulation policy which may help explain the spectacular reduction of the unemployment rate (Fitoussi and Passet, 2000; Madsen, 2002).

4. Can the “Danish model” be a matrix for a European employment strategy?

Having now the whole picture in mind, it might be tempting, following the European Commission and the OECD recommendations, to try to extrapolate the Danish “good practices” to other European countries, in a context of mass European unemployment. Anyway, this suggestion is of limited interest, for many reasons.

First of all, it is useful to recall that, as outlined above, flexibility is by no means a new characteristic of the Danish labour market: during the last fifty years, there have been no significant changes in this field. The generous welfare system has also a long history, which starts in the nineteenth century. This means that flexibility and welfare system were already present during the 1980’s, where the figure of the unemployment rate in Denmark was comparable to the one of the core European countries. All that can be said is that the active labour market measures have gained ground throughout the last fifteen years, particularly since the 1993 labour market reform.

Nevertheless, the conclusion of these considerations should not be that the “active labour market policy” aspect of the Danish system has triggered, combined with relatively expansionary budget policies, the spectacular decrease of unemployment that has taken place in Denmark during the second part of the 1990’s. The strong societal and institutional consistency of the Danish system must also be evoked. Moreover, there is another side of the Danish coin that may be worth a look at.

The other side of the Danish coin

Many by-products of the Danish system are far less well known than the flexicurity system, but can be seen as important by-products of it.

First, the labour market leaves a significant range of the population by the wayside: no less than twenty percent of the Danish population is living on transfers, and large groups are expelled from the labour market. One quarter the adults aged 15-66, that is, 800 000 persons, are out of the labour force, and a large part of them could hardly go back to the active life, as they have been excluded from work for various reasons. As outlined by Larsen (2005, p.9), “even though Danish market policy in the 1990’s can only be described as a success story in terms of solving structural problems and combating unemployment in general, efforts to re-integrate heavily marginalized groups and incorporate refugees and immigrants into the labour market have been far less successful.”

Secondly, the burden of the system rests almost exclusively on consumers and households, since they are paying the great majority of taxes, whereas employers and firms are almost exempted. The result of this, along with the need for financing the important Danish public sector, is that the low budget families pay 9 to 44 % of their income in taxes, whereas middle class families pay 44 to 62 %. This burden on the households’ budget is even worsened by the level of the tax on value- added, which is around 25 %. For many European countries, which are desperately in the need for growth, introducing such high rates of taxes would imply considerable risks of recession if not of slump, for the next decades.

Thirdly, some Danish macroeconomic performances are rather worrying. Most importantly, the growth rates of the last years are rather low, and, looking at the figures of the previous years (OECD 2004b, 2005b), low growth rates seem to be rather structural in Denmark. The Danish growth rate is even, generally, lower than average growth in the Euro Area, and this was already the case during the previous decades. Other worrying figures are the saving ratios of the last decade. Denmark is, with New Zealand, the only OECD country to exhibit negative saving ratios, and these ratios have been constantly negative since 1995 (OECD, 2005b). These negative ratios might be due to the will of households to uphold their consumption, in a context of strict wage moderation, and, therefore, a by-product of the Danish political and institutional arrangements.

In our view, as these characteristics are some of the by-products of the system as a whole, importing the Danish recipes may also mean taking the risk to import some of these undesirable side-effects.

A strong societal and institutional consistency

As outlined by most of the authors that have taken a close look at the Danish case¹³, flexicurity cannot be considered in isolation from the other aspects of the Danish system as a whole. This system has a strong internal consistency, which is part of the explanation of the success of the 1993 reform. Therefore, touching at one of the elements of the system may lead to the destabilization of the whole structure.

First, an important characteristic of this small-side open economy is the considerable importance of small and medium-sized businesses, which hire most of the employed people. This importance helps explain why work flexibility is more needed than in economies where medium-size or big-size business are the most important. It also helps understanding why it is relevant that the bargaining between the powerful labour unions and employers' organizations take place at a decentralized level.

Another Danish particular characteristic is the size of the Danish public sector, which is one of the highest in the world, with thirty percent of the Danes being employed by the state. In a world where the mood is rather to decrease the size of the public sector, raising it up to 30 % may be difficult to include as a part of the European employment strategy, all the more that the Commission as well as the OECD are rather prone to recommend a reduction of the size of the public sector.

Moreover, Denmark is characterized by a long and strong tradition of social consensus, in a context of quasi-absence of work legislation, the regulation being conducted by the "social partners." Of course, this does not mean that conflicts and strikes are absent in Denmark, since, as elsewhere, the interests of the employers' organisations and of the labour unions are divergent. But there is a strong confidence in the social consensus that eases the bargaining process, as well as an egalitarian tradition that leads social partners to avoid any explosion of wage inequalities or strong disparities in average working times. On average, the wages disparities are lower than in France (Barbier 2005a) whereas the average annual hours

¹³ See Barbier (2005b), or Madsen (2002) for example.

actually worked per person in employment is roughly the same, one of the lowest in the OECD countries¹⁴.

Last, the Danish system is the outcome of a long historical process. The roots of this process can be traced back up to 1899, where the labour market parties entered into an agreement, the “September Compromise.” This agreement focused on how to solve labour market conflicts, and laid the foundations of the dialogue and regulations between the employers’ organisations and the labour unions. The current flexicurity system is the outcome of the subsequent history. As outlined by Larsen (2005, p.6) “the Danish situation is not the result of a deliberate TLM¹⁵ or flexicurity strategy. Instead, Danish labour market policy is based on practical experience and the outcome of power struggles between actors that cultivate rational, “matter-of-fact” approaches to policy making.” This makes it difficult to import one of the aspects of the Danish model or the other, and leads most of the observers of the Danish system to the conclusion that the functioning of the whole system is strongly linked to its consistency as a whole (Madsen, 2002; Barbier, 2005a, 2005b; Assemblée Nationale, 2004; Larsen, 2005).

5. Concluding remarks

Unquestionably, the Danish flexicurity “model” is interesting and stimulating. It is also and undeniable “success story” in the field of employment. Nevertheless, as outlined in this paper, there is another side of the Danish coin, *inter alia*, in terms of marginalisation, taxation, growth and saving performances. That aspect, which may be the counterpart of the Danish regulations, is too often neglected by the analyses of the Danish case.

Moreover, the spectacular reduction of the unemployment rate that has taken place during the 1990’s cannot be seen as the result of changes in one of the elements of the “golden triangle” rather than in the other. Even if the 1993 reform has brought some important changes concerning the active labour market policy (the flexible labour market system and the welfare system being by no means new), the Danish system must be

¹⁴ In 2004, the average number of annual hours actually worked per person in employment was 1441 for France and 1454 in the case of Denmark (OECD 2005a).

¹⁵ Transitional Labour Market.

understood as a whole, having a strong societal and institutional consistency, which is the result of a long history of institutional arrangements.

For all these reasons, a clear conclusion of the previous consideration is that it might not be a good idea to try to transplant some aspects of the Danish system or the others to other European countries. As a very particular combination of institutional, historical, and economic factors is needed to make the Danish “miracle” possible, there are good reasons to believe that the graft will not take anywhere else.

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