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Flexicurity – Denmark-style

At a time of increasing debt, persistently high unemployment, and aging populations, many Europeans see globalization as a detriment to their way of life. Not the Danes. According to Denmark's Minister for Employment, Claus Hjort Frederiksen, 70 percent of the Danish population regards globalization as "a unique economic opportunity," thanks in large part to a set of widely supported welfare reforms passed in June 2006. Now the rest of Europe is examining the Danish model to determine how applicable its success may be to them.

How can the Danes reconcile their legacy of social welfare with the pressures of globalization? Frederiksen spelled out the details at a recent CSIS seminar entitled "Globalization and the Welfare State," cosponsored with the embassy of Denmark, the American-Danish Business Council, and the Council on Competitiveness. According to Frederiksen, Denmark's "welfare compromise" program seeks to achieve what elsewhere in Europe is perceived to be unachievable: to enact reforms such that Denmark can maintain its social protection traditions, while at the same time remaining competitive internationally.

At the core of Denmark's strategy to reform its welfare system is the need to address the country's challenging demographic profile—a rapidly aging population, increased life expectancy, lower birth rates, and a shrinking workforce—not exactly the kind of age distribution conducive to maintaining expectations for generous social benefits. To prevent mounting economic dislocations, the welfare compromise addresses labor market withdrawal by increasing the country's retirement age from 65 to 67 years old and increasing the voluntary early-retirement age from 60 to 62 years old. In short, citizens work longer so that less strain is placed on the younger generations to support older age cohorts. As life expectancies increase in Denmark, the retirement age will continue to increase as well. For obvious reasons, both of these components of the strategy are political hard sells, but according to Frederiksen the Danish population has acknowledged that such reforms are necessary to align the country with the changed environment around it.

Toward an agile labor market…

In the face of mounting overseas competition, the Danish government is seeking to ensure that globalization leaves no worker behind. In order to maintain economic competitiveness without jeopardizing social cohesion, the reform commission has created the idea of "flexicurity"—a combination of a flexible labor market, liberal rules on hiring and firing, and substantial social benefits. Workers who lose their jobs (in fact, about 800,000 Danes do each year) receive generous benefits, almost as high as the worker's wages themselves, but they are also required to aggressively search for a new position. If that fails, the Danish government pays to retrain the workers in a new field. The result, as described by Frederiksen, is a labor market in which workers must adapt to different working conditions. As a result,

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companies remain competitive by having the best possible workers.

The challenge of immigration…

Although Denmark's overall unemployment rate is only 4.5 percent, a staggering 50 percent of its immigrant population is unemployed. Like many other European countries, Denmark is struggling with how to integrate immigrants into its society. At first, the government required newcomers to go through classes and Danish lessons, but Minister Frederiksen explained that the longer a person is out of a job, the harder it is to find a new one. Now, by decreasing the bountiful social benefits available to immigrants upon arrival in Denmark, the government hopes to entice them to find jobs right away.

Another important issue is that due to the nature of Denmark's economy, there are very few unskilled laborers. The average minimum wage is $14 to $15 per hour. This poses a problem for unskilled immigrants looking for jobs. The welfare compromise attempts to solve this problem with a new "hand-held" immigration policy. The government guides immigrants into privately run training programs, and these companies are not fully paid if the trainees do not find a job within 13 weeks of completion of the program; therefore, the incentive is on securing a job, not just completing the training program. The government then attracts interest from employers by offering to subsidize 90 percent of the immigrant employee's salary for a short time. The employer provides a mentor to the new employee to help ensure success and easy adaptation. With these new stipulations in the welfare compromise, Denmark is making progress in assimilating immigrants into the workforce.

The Danish model…

After seeing the resistance to proposed labor reforms in France, how did Denmark manage to enact such sweeping, successful welfare reforms? Frederiksen emphasized that the precondition for reform is a well-planned strategy. The reforms in Denmark were initiated in 2003, when Prime Minister Anders Fogh Rasmussen established an independent welfare commission to generate proposals for change. Although the public initially resisted the idea, the longstanding Danish tradition of open public dialogue led to eventual acceptance. Remarkably, 158 out of the 179 members of the Danish parliament approved the legislation.

What can other countries learn from the Danish model of reform? Frederiksen had his doubts about the extent to which their experience might be useful to the United States, where social welfare protections are substantially less pronounced. In the European context, by contrast, he suggested that different pieces of his country's model might be applicable to other systems. Above all, he stressed that the Danish welfare compromise is far from being a silver-bullet solution. Instead, it is a significant staging point for additional rolling reforms in the future aimed at setting the foundation for the next generation of "flexicurity."

For an audio recording of this event, please go to http://www.csis.org/gsi/events/.