



The Danish Flexicurity Model

The Role of the Collective Bargaining System

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Executive Summary

The Danish labour market is as flexible as the British, while at the same time offering employees the same level of security as the Swedish. These characteristics of the Danish labour market have been confirmed time and again by a number of international studies in recent years. In Denmark you can find flexibility *plus* security = *flexicurity*.

Flexible rules of employment, active labour market policies with the right and duty to training and job offers, relatively high benefits and a favourable business cycle lasting a decade have repeatedly been offered as explanations for this development. However, the collective bargaining system needs to be included to fully understand the development of flexicurity in the Danish labour market. Actually, efforts to combine flexibility for enterprises and security for employees can be traced back to the beginning of the collective bargaining system a 100 years ago. "Security" is here to be understood in the broadest sense, as regulation that gives the employees security for employment and income irrespective of developments on the labour market (e.g. rising unemployment) or developments in the employee's own situation (e.g. illness). "Security" is thus very much about the employees' feeling of general, overall security.

Flexibility is above all evident in the collective agreements' rules and regulations on dismissal, which gives Danish regulation a ranking as highly flexible by international standards. Studying the development in the agreements over the years on this issue, it can be demonstrated that their basic content *has remained constant* for several decades. The new regulation that has been added on hiring and firing is a consequence of EU regulation.

A new and extended flexibility can be found in the organisation of work, overtime etc. Over the last ten years, the scope for shop stewards and management to draw up local agreements on working-time issues has been systematically expanded. As long as negotiations at plant level take place within the framework agreements agreed on at the central level, both employers and employees have agreed to decentralise the bargaining authority. This decentralisation is a precondition for the flexibility achieved in this area.

The possibility of negotiating wages at the local level has existed in the metalworking industry ever since the start of its collective bargaining history. Hence, in the manufacturing sector the possibility of paying wages related to performance or results is, in principle, *unchanged*. But the scope for local wage negotiation has increased with the decentralisation of the bargaining system.

The rules on continuing/further education and training started to be included in the agreements in the early 1990s. This can be seen as a development that contributes towards functional flexibility, i.e. the potential for employees to perform several and various functions in the same enterprise. Provided the employees receive a sufficiently broad upgrading of skills, continuing/further education and training also help increase labour market mobility in general. That the education and training issue is given a prominent place in the bargaining process can be interpreted as an expansion of the scope of collective bargaining

– that is, adding new issues, such as e.g. education and training, to the traditional issues covered by collective bargaining.

The collective bargaining system also provides security - and this is perhaps the most important aspect of its contribution to employment security - by making sure there are jobs to be had. Since the late 1980s, it has been the declared goal of the social partners to secure both the competitiveness of the enterprises and the employment of the employees. For the trade unions, the order of priority at subsequent collective bargaining rounds has been ‘job feast over wage feast’.

As a consequence of the expanded scope of the bargaining agenda other forms of security have been included in the collective agreements. The establishment of the labour market pension system is a central example. The pension schemes secure income beyond the active working life. Another example is Social Chapters and other initiatives aimed at employees with diminished work capacity. These arrangements increase the job security for certain groups of disadvantaged employees. All in all, the expanding scope of the collective bargaining issues over the last decade or so has added a number of new elements of security to the regulation, but it has also contributed towards increasing flexibility in the area of education and training.

Danish labour market flexicurity is not only a result of the collective bargaining system. The fact that the state both co-finances the unemployment benefit system and the active labour market policies is an important element in the *aggregate* Danish flexicurity model.

With regards to the future role of the collective bargaining system in the further development of flexicurity, two aspects must be highlighted. Firstly, the ever-expanding decentralisation has led to more autonomy in plant-level bargaining. This can lead to a weakening of the coordination between the central and the local bargaining levels. Will increased bargaining autonomy at plant-level shift the balance between flexibility and security? And will a feeling of potentially greater insecurity among employees lead to demands that in effect reduce flexibility?

Secondly, the expanding scope of bargaining issues constitutes a substantial contribution to the particular balance between flexibility and security on the Danish labour market. An expansion of the scope of collective bargaining creates more opportunities for trade-offs - negotiated compromises - between flexibility and security. However, is it necessary to continue to broaden the scope of issues in collective bargaining in order to secure the further development of flexicurity on the Danish labour market? If so, which issues will be important to include in the bargaining process in order to add new dimensions to flexibility and security?

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Introduction

In an international perspective, the Danish labour market has been characterised by high employment, high labour turnover and relatively modest marginalisation. It is widely assumed that these good results can be ascribed to the particular Danish combination of flexible employment rules, active labour market policies with the right and duty to activation, and finally relatively generous unemployment benefits. In this age of globalisation it has within recent years become clear that a country's ability to maintain high employment depends on its ability to restructure and adapt production. In this context, the flexibility of the labour market is a crucial factor. The following will focus on the Danish collective bargaining system and the ways in which it helps provide flexibility for the enterprises and security for the employees – in short, flexicurity. It is often argued that the relatively high level of unemployment benefit and the active labour market policy gradually developed over the last decade are the important elements which secure the balance existing today between flexibility and security on the Danish labour market. Central is, however, the collective agreements, where the social partners throughout the history of the bargaining system have negotiated where 'the balance of compromise' is, which can be accepted by both employers and employees.

This article will therefore focus on the ways in which the Danish collective bargaining system has contributed towards the emergence of the specific flexicurity model that characterises the Danish labour market today. Stating that Danish employees enjoy relatively high security, compared to other countries, will hardly come as a surprise. In this respect Denmark is no different from other Scandinavian or continental European countries. What has created a bit of a stir, however, is the fact that the Danish labour market is relatively flexible. This will be described in more detail in the next section. Thereafter, the preconditions not only for the flexible regulation but also for the provision of security will be outlined. This section is thus about the collective bargaining system and the tradition for dialogue between the social partners. After a short description of what flexicurity is, the main section of the text will describe and analyse how the collective bargaining system creates both flexibility and security, i.e. flexicurity, on the Danish labour market. Finally, the perspectives for further development of flexicurity will be discussed¹.

A flexible labour market

A number of studies have been published in recent years with largely identical conclusions indicating that, in an international perspective, the Danish labour market is highly flexible.

¹ This text is an abridged and revised version of the Danish text "Flexicurity og det danske arbejdsmarked – et review med fokus på overenskomstsysteet", published in *Flexicurity – udfordringer til den danske model*. København: Beskæftigelsesministeriet, 2005.

Two relatively recent studies will be commented on here. The first is the World Bank's *Doing Business in 2004 - Understanding Regulation*, which includes an index for the flexibility of national labour market regulation. Table 1 shows the ranking of the ten best-placed EU countries.

As can be seen, Danish labour market regulation has top rankings with regards to flexibility of hiring, regulation of employment conditions and flexibility of firing². The column on the right 'Employment Law' sums up the three regulation areas – and here the Danish labour market is ranked as the most flexible amongst EU member states. Obviously, the possibilities for enterprises to achieve flexibility of employment conditions is a question that far transcends the borders of the EU, and it is worth noting that, in the World Bank's account, including 130 countries from all continents, Denmark is ranked as the third most flexible labour market – a position shared with the Malaysian labour market. Only USA and Singapore have more flexible regulation of their labour markets³.

Table 1: Indexes on the Employment Regulation – The ten most flexible EU-countries, incl. Norway (index)

Flexibility of hiring		Conditions of employment		Flexibility of firing		Employment laws	
Czech Republic	17	Denmark	25	United Kingdom	9	Denmark	25
Denmark	33	Norway	39	Austria	14	United Kingdom	28
United Kingdom	33	Sweden	39	Denmark	17	Austria	30
Austria	33	Austria	41	Belgium	22	Czech Republic	36
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
Netherlands	51	Czech Republic	63	Lithuania	31	Germany	51

Note: 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.
Source: The World Bank (2003:36)

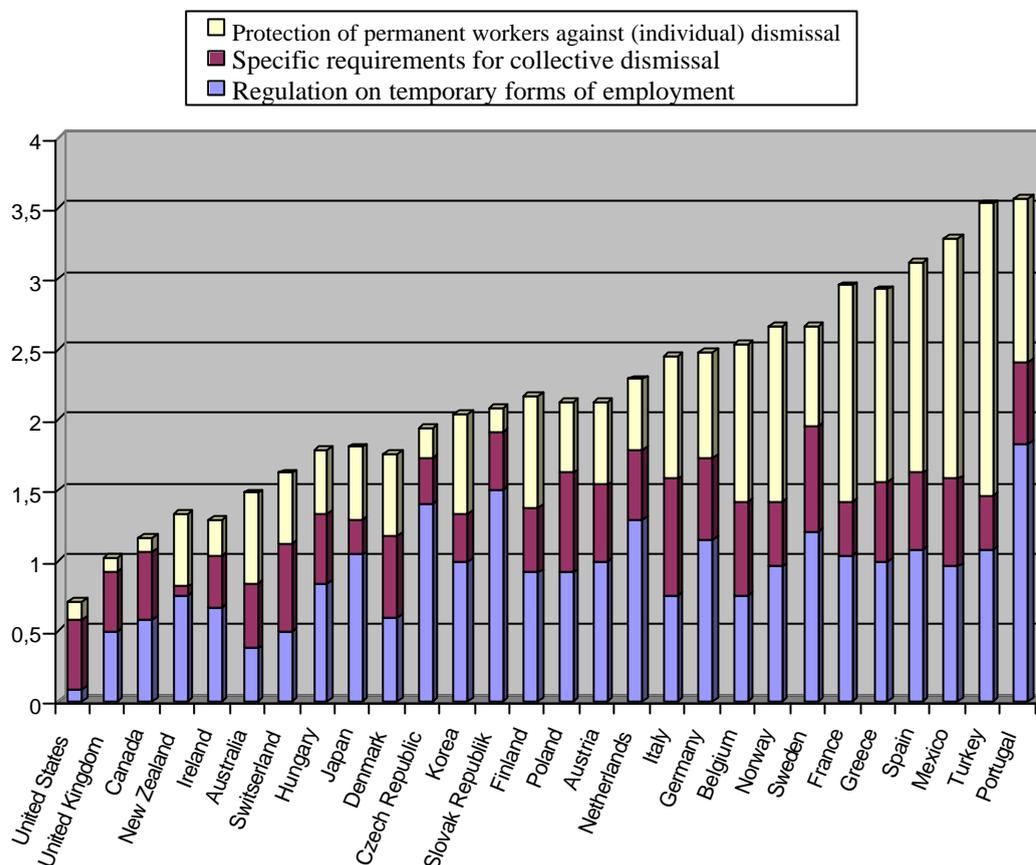
The point here is that regulation in Denmark to a very large extent is through collective agreements. Thus, it could be argued that the above ranking of Denmark is in fact not a real expression of the flexibility of the Danish regulation, since these areas of labour market regulation are largely covered by the collective agreements. An exploratory question then must be how flexible the collective agreements are in terms of hiring, firing and regulation of employment conditions?

² 'Hiring flexibility' describes access to part-time and fixed-term employment. The World Bank has chosen to emphasise on these two forms of employment, as they are expected to become more and more important (The World Bank 2003:30) 'Conditions of employment' relate to legal requirements concerning working time, paid holidays, paid leave and minimum-pay legislation. 'Firing flexibility' concerns the requirements for grounds for dismissal, dismissal procedures, terms of notice and severance pay.

³ The World Bank 2003:36.

An indication of the extent to which the flexibility of the Danish labour market is limited by the collective agreements can be found in the OECD's *Employment Outlook 2004*. It presents a so-called *Employment Protection Legislation index*, EPL index. In spite of its name, it not only includes relevant legislation but also collective agreements and other contractual relationships, together with the practice of the courts developed on this basis⁴.

Table 2: The overall strictness of EPL in 2003



Source: OECD 2004a:72

Note: Countries are ranked from left to right in ascending order of the overall summary index.

The OECD index deals with the overall 'strictness' of EPL, which roughly equals the degree of employment protection. It is based on three different elements: regulation of various forms of fixed-term contracts, protection of regular employees against (individual) dismissal and special requirements in connection with collective dismissals⁵. As can be seen in Table 2, Denmark is clearly placed in the share of the OECD countries with the lowest EPL level. In other words, with regard to the strictness of EPL Denmark is on the same level as

⁴ OECD 2004:62-76.

⁵ Provisions concerning fixed-term contract and temporary work agencies are measured by the restrictions on the use of temporary employment by firms. The protection of permanent workers (individual) against dismissal is measured by a) difficulty of dismissal, i.e. the legislative definition of conditions under which dismissal is "justified", b) procedural inconvenience, and c) notice and severance pay provisions. Specific demands concerning collective dismissals refers to additional delays and procedures required which go beyond those applicable for individual dismissal (OECD 2004a:65).

countries like the Czech Republic, Japan and Hungary. It is remarkable that Norway and Sweden have a markedly higher degree of employment protection than Denmark.

Altogether this indicates that the actual content of collective agreements on the Danish labour market does in fact limit flexibility, but that the Danish labour market still ranks as one of the more flexible among the OECD countries. The same tendency is confirmed by two other, older studies. Grubb and Wells in their EPL index find that out of the then 11 EU members⁶ only the British regulation is less strict than the Danish, The same tendency appeared in the OECD's *Employment Outlook 1999*⁷.

Trust-building based on voluntarism

The Danish labour market has developed into one of the most flexible in all EU and OECD countries. However more importantly, concurrently with this development it has been possible to maintain and further develop 'security' for employees – and once again compared to other EU and OECD countries the level of security is relatively high. In order to understand how this balance between flexibility and security has developed in the Danish labour market, it is important to point out some basic characteristics of Danish labour market regulation.

The Danish labour market is one of the most thoroughly organised labour markets in the world. Today the rate of unionisation is around 80%. Members of employers' associations employ around 55% of private sector employees. The collective agreements settle wages and the main issues pertaining to working conditions. Today they cover just below 80 percent of all private sector employees. In the public sector labour market, the coverage is estimated to be 100%⁸ The agreements run for two to four years depending on the conditions agreed upon within the specific sector.

Inter-union rivalry and competition among employers' organisations is fairly limited. Furthermore, due to organisational overlaps between the public and the private sector and common historical developmental trends, all sectors are encompassed within the same bargaining system or model. This system of organisations and dialogue may be described as a voluntary system, in which the mechanism for concluding collective agreements on wages and working conditions is underpinned by basic agreements. The Danish Parliament (Folketinget) has passed very little formal legislation on recognition or regulation of trade unions and employers' organisations. Accordingly, in Denmark we do not find a labour code or legislation enshrining the formal recognition of labour market organisations. Consequently, it is the right of association which is the cornerstone in the system of organisations and collective agreements governing the labour market.

A key element in the basic agreements is that they stipulate reciprocal recognition by the opposing parties. This means a) that the trade unions recog-

⁶ Grubb and Wells 1993:14

⁷ OECD 1999:57

⁸ DA, Arbjedsmarkedsrapport 2004.

nise the employers' management prerogative, i.e. the right to manage and allocate work, while respecting currently valid collective agreements and the spirit of co-operation, and b) that the employers accept the right of employees to organise and to establish collective representation. This reciprocal recognition can be characterised as the basis on which dialogue and cooperation have developed. Furthermore, the basic agreements contain rules on the procedures for concluding collective agreements, and for the scope and mode of the use of collective industrial action, such as strike or lock-out. The rules also impose a peace obligation, which prevents the parties - in ordinary circumstances - from resorting to hostile action during the period of validity of the collective agreements.

Flexibility for the companies and security for employees is thus based on the ability of the collective bargaining system to function as an arena in which conflicts of interest in society can be resolved, thereby contributing towards stability in economic and political development. This capacity for releasing tension, defusing threatening situations and breaking crippling deadlocks has made the relationships between employers and trade unions a main pillar of the Danish welfare model.

What is flexicurity?

Obviously the concept 'flexicurity' is a contraction of the words 'flexibility' and 'security'. The concept has been defined in a number of ways, but by and large flexicurity denotes labour markets – or forms of labour market regulation – which at the same time manage to demonstrate or provide flexibility and security. Even though it is possible to point at labour markets that for years have been characterised by flexicurity, the concept was first coined and gained wide recognition in the mid-1990s. 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 and understandings of what 'flexicurity' is and includes vary a lot. Ton Wilthagen – from time to time in cooperation with Frank Tros and Harm van Lieshot – has argued for a definition of flexicurity which is accompanied by a number of demands⁹. Firstly, flexibility and security must not be developed in isolation or by coincidence, but must be the result of deliberate and synchronised efforts. Secondly, flexicurity must also include disadvantaged groups on the labour market, whether they are covered by collective agreements or not, and must thus not focus exclusively on labour market insiders. On this background, Wilthagen and Tros propose a definition of flexicurity as a policy strategy consciously striving “to enhance the flexibility of the labour markets, work organisation and labour relations on the one hand, and to enhance security

⁹ Wilthagen 1998; Wilthagen et al. 2003; Wilthagen & Tros 2004.

– employment security and social security – notably for weak groups in and outside the labour market on the other hand”¹⁰.

To analyse in more detail the direct and indirect ‘trade-offs’ which form the basis of flexicurity, Wilthagen et al. identify four forms of flexibility and security respectively:

Forms of flexibility

- External numerical flexibility (the flexibility of hiring and firing)
- Internal numerical flexibility (working hours, overtime, part-time work, etc.)
- Functional flexibility (multi-employability, flexible organisation of work)
- Wage flexibility (performance or result-based pay)

Forms of security

- Job security, the certainty of retaining a specific job with a specific employer
- Employment security/employability security, the certainty of remaining in work (not necessarily with the same employer)
- Income security, income protection in the event that paid work ceases
- Combination security, the certainty of being able to combine paid work with other social responsibilities and obligations. This last form of security cannot be traced back to the other forms of security.¹¹

The following analysis will use these forms of flexibility and security as its point of departure. The advantage of using these concepts of flexibility and security is that, on the one hand, they comprise central elements found in international flexicurity literature, and on the other that they provide a convenient framework for identifying which of the elements of the Danish collective bargaining system that have contributed towards ‘the Danish flexicurity model’.

The focus of the next section will be on the collective agreements in the manufacturing sector, which is the key bargaining sector in Denmark. Its agreements therefore, to a very large extent, chart the course for the bargaining and agreements in other sectors.

Forms of Flexibility in the collective agreements

External numerical flexibility

One of the most important characteristics of the Danish labour market is the comparative ease with which employees can be hired or fired. The OECD report mentioned above makes it possible to take a closer look at the various elements constituting the protection of individual employees working on regular open-ended contracts against dismissal (one of the three parameters in Table 2 above). Table 3 includes, firstly, procedural barriers with regards to termination

¹⁰ Wilthagen et al. 2003: 3.

¹¹ Wilthagen et al. 2003: 4.

notice (oral, written, involvement of third parties and other potential delays). Secondly, it includes the barriers relating to what constitutes lawful/unlawful dismissal (lack of work, lack of qualifications, compulsory re-training etc.). And thirdly, it includes demands concerning notice and severance pay (e.g. proportional to length of service)¹².

Table 3: Indicators of the strictness of employment protection for regular employment (cont.) 2003. Index 0-6

	<i>Denmark</i>	<i>Sweden</i>	<i>Germany</i>	<i>United Kingdom</i>
1. Regular procedural inconveniences	1,0	3,0	3,5	1,0
2. Difficulty of dismissal	1,5	4,0	3,3	1,3
3. Notice and severance pay for no-fault individual dismissals	1,9	1,6	1,3	1,1
Overall strictness of protection against dismissals	1,5	2,9	2,7	1,1

Source: OECD 2004a:112

The table compares protection against dismissal in Denmark with the three neighbouring countries Sweden, Germany and the UK. Overall, the table shows that the degree of protection for the individual employee is lowest in the UK, but that the aggregate Danish degree of protection is not much higher. The overall index score for Sweden and Germany is almost twice as high as the Danish. So, in terms of protection against dismissal, the Danish labour market is more similar to the British than to the Swedish and German labour markets. A closer look at the three protection elements in the index reveals that on procedural barriers and barriers to when a dismissal is possible, Denmark is at the same level as the UK. However, with regards to regulation on notice and severance pay Danish regulation scores higher than any of the others.

This tallies with the fact that dismissals on the Danish labour market are regulated primarily by the terms of notice laid down in the collective agreements or in the White Collar Workers Act. In the manufacturing sector's agreement it is the length of service at the time of dismissal which decides the term of the notice. Within the first six months of employment, the employer is under no obligation to give notice. But after this period, the term of notice rises proportionally, so that an employee with 12 years of service has a right to 120 days' notice. The White Collar Workers Act has parallel, but also more comprehensive stipulations on terms of notice and severance pay. Furthermore, there is an Act on Collective Dismissals, which stipulates, among other things, terms of notice and a duty for the management to negotiate with the employees in case of planned collective dismissals, defined as dismissals affecting groups of workers and not attributable to circumstances related to the individual employee. These stipulations have also been written into collective agreements, e.g. as an appendix in the manufacturing sector's agreement. This regulation is a consequence of the EU directive on Collective Redundancies.

Regulation relating to hiring is also primarily a consequence of EU regulation. The Act on employment contracts, and in relation hereto the provisions

¹² Per Kongshøj Madsen has produced a similar table, with more detailed information in Madsen 2004b:7; however, without data for Germany.

relating to rules on hiring in the manufacturing sector's agreements, are also the result of an the EU directive on the duty of the employer to notify the employee on the conditions of his/her employment or employment contract. There are other EU directives concerning the external numerical flexibility, e.g. the directive on fixed-term contracts, which impose certain limitations on the right to use this kind of employment.

In the overall perspective, there are several factors that indicate that the ease of hiring and firing is the most important kind of flexibility in the Danish labour market regulation. From international comparisons we know that, compared with other countries¹³, a relatively high percentage of employees on the Danish labour market change jobs over a given period of time. Another figure indicating a comparatively high labour turnover in Denmark is the average length of service, which again by international standards is low. The Danish labour market is here on par with the British labour market with an average length of service of just above 8 years, whereas corresponding figures for Sweden is 11.5 years and 10.5 years for Germany¹⁴.

Actually, over the past 50 years, there have been no significant changes in the Danish rules and regulations on dismissals. As early as in 1950, rules on terms of notice were written into the manufacturing sector's collective agreement. Over the years, the terms of notice have become longer and more specific, but in substance they remain the same¹⁵.

Internal numerical flexibility

Internal numerical flexibility in Danish enterprises is above all a result of collective bargaining, as issues such as working hours, organisation of working time and overtime and conditions for e.g. part-time employment are primarily issues dealt with in the collective bargaining process; although the last-mentioned issue has become increasingly regulated by legislation in recent years.

A study from 1998 on working time flexibility shows that Denmark differs from the rest of the EU members (the then EU-15) in that this area is almost exclusively regulated by collective agreements; however, the other Scandinavian and North European countries also tend to leave substantial parts of this regulation to the social partners. But the general picture is that working time is something the EU members to varying extents legislate on. The trend in recent years has been towards introducing new legislation in order to create greater flexibility in existing laws on working time. The UK and Denmark stand out as countries with very limited legislation that can affect the possible working-time flexibility¹⁶.

Working time has at all times been an issue in collective bargaining in Denmark, but the specific aspects of working time that have been in focus during the bargaining process have varied. In addition, the form of regulation has

¹³ Bingley et al. 2000.

¹⁴ Auer and Cazes 2003:25/table 2.1. All years 2000.

¹⁵ Navrbjerg et al. 2001

¹⁶ EIRO 1998.

changed considerably in the last couple of decades. Until the 1980s, the total length of the working week was the most dominant issue. Even though rules on flexible working hours were already written into the manufacturing sector's agreement in 1967 it was not until the mid 1980s that negotiations systematically started to focus on variations in the agreed working time. Since then, the rules have been further elaborated on. An important change was introduced in 1995. At that time, the weekly working hours could vary over a six-week period, so that the average working week amounted to 37 hours over this six-week period. In the 1995 agreement this reference period was extended to six months, provided that the social partners locally, i.e. the management and the shop steward, could reach an agreement on the organisation of the working time. This was indeed an important change, and it was met with grave concern from both trade unions and employers. The unions worried that the employees at times would be pressurised into accepting a heavier workload, whereas the worry on the part of the employers was that the demand for local agreement would in reality rob the employers of part of their management prerogative¹⁷. But in spite of these concerns, already in 1998 the reference period was extended to 12 months, which is also the period valid under the present agreement (2004-2007).

Additional flexibility in the organisation of working time was written into a pilot scheme included in the collective agreement of 2004. This scheme loosened the demand for local agreement on variation of the working time; a local agreement between the management and the shop stewards was still required, but the agreement could now be a framework agreement under which the specific organisation of working hours could be agreed directly with the individual employee or groups of employees. This very nearly amounts to an individualisation of the working time; but it is still contained within the framework of the collective bargaining system. As mentioned, this is a pilot scheme only, to be revised in connection with the bargaining rounds in 2007¹⁸.

Overall, it is to be assumed that regulation by collective bargaining offers more scope for local variations in the organisation of working time than if the working time is regulated by law. This is primarily due to the sector-specific agreements, which are framework agreements that can be further negotiated and adapted locally. This type of flexibility is not easily written into legislation, since it relies on further detail regulation by the social partners at the various sectors and enterprises.

An indication that the Danish labour market has a higher degree of flexibility in organising working time than its neighbouring countries could be observed in the second half of 2004, when a series of spectacular agreements made by large enterprises in Germany broke away from the existing collective agreements, among other things in order to achieve more working time flexibility. In several European countries (such as Germany, France, Belgium and the Netherlands) this sparked a general debate about working time. But not in Denmark. On the contrary: representatives from the employers' organisations stated that there was no need for changes to the existing rules on working time.

¹⁷ Navrbjerg 2001:18.

¹⁸ Due og Madsen 2004.

According to the employers, the possibilities in the available local agreements already offered enough scope for flexibility.

Finally, there are a number of laws on the Danish labour market that affect different working time issues, i.e. the internal numerical flexibility. These laws are primarily the result of EU directives on implementation of certain parts of the Working Time Directive from 2002, setting limits on total working time, and rules on night working, breaks etc. And in addition, an Act on part-time employment passed in 2002, which was partly a matter of implementing the directive on part-time work, partly of the government's wish to remove obstacles in the collective agreements to an expansion of part-time employment on the Danish labour market. The Directives have created common EU minimum standards in the specific areas comprised by the Directives, but that does not change the fact that, on the Danish labour market, the vast majority of issues relating to working time are regulated by collective agreements.

Functional flexibility

Functional flexibility is about the individual employee's ability to carry out various and different tasks in the same enterprise, thus allowing more flexibility in the organisation of work. Functional flexibility is about utilising the total potential of the employees, avoiding repetitive work e.g. by job rotation, and being able to cover staff shortages in connection with sickness, bottlenecks etc. in production, or in connection with reorganisation or adaptations to changes in demand. Functional flexibility is typically said to be closely linked with continuing/further education and training; that is, continually building up the competences of the employees to achieve maximum functional flexibility.

A survey carried out in early 2003 in the EU-15 plus Norway and Iceland showed that more than half the Danish population reported that they had taken part in supplementary training or education over the past 12 months. This places Denmark as the nation that is most engaged in training and education out of the surveyed nations¹⁹. This could indicate that Denmark is doing really well with regards to this form of flexibility. However, at issue here is also the content and quality of the education and training people take part in. Does it target job functions that will also provide employment in the future? Is it enterprise-specific training or is it of a broader, more general nature? The last question is particularly important in the light of the extremely high numerical flexibility on the Danish labour market (cf. above). In other words, functional flexibility is not just about being able to perform various tasks in the same workplace, but also about acquiring qualifications that are useful in other types of jobs or workplaces.

In the manufacturing sector's agreements, the issue of continuing/further education and training has been gaining an increasingly prominent position ever since the early 1990s. In 1991 the employees got the right to one week's and in 1993 two weeks' paid annual continuing/further education and training, provided they had a minimum of nine months' service. The provisions of the

¹⁹ *The European Centre for the Development of Vocational Training.*

agreement furthermore list a number of recommendations as to training and education planning, guidelines for the employees' access to trade-relevant training, general educational upgrading and other education and training. This increased attentiveness to education and training in recent years must be assumed to have had an impact on the nature of the training and education offered at enterprise level, including the access of employees to have time off for education and training purposes. But existing studies also indicate that there is huge variation in the extent to which enterprises in the manufacturing sector have implemented the systematic and planned education and training activities prescribed in the agreement. It is worth noting, too, that in an LO (Confederation of Danish Trade Unions) survey from 1998 among shop stewards, as many as 93% stated that they agreed 'totally' or 'to some extent' with a statement that continuing/further education and training is an area where the trade union movement must work harder to improve the opportunities of its members²⁰.

In addition, there are a number of areas that prompt the question whether barriers exist to the functional flexibility of the Danish labour market. For instance, can strict demarcations between groups of employees act as a barrier to this flexibility? Employers have long wished to develop the principle of one enterprise, one collective agreement. To a large extent, this has already happened in the manufacturing sector. The question is whether internal rivalry and demarcation disputes between trade groups – e.g. skilled and unskilled workers – play a role for the degree of functional flexibility that is achievable? The assumption here must then be that the amalgamation of unions and the drawing up of common collective agreements (for skilled and unskilled workers) ought to lead to the diminish of previous barriers. Also, longer and more expensive further education, e.g. an MBA course, financed by an enterprise tends to tie an employee more closely to his employer. The courts have delivered some judgements forcing employees to pay back educational fees and other costs in case they leave the employer. All else being equal, such legal rulings must limit the mobility and thus the flexibility of the labour market.

Wage flexibility

Wage flexibility in the manufacturing sector, but also in other bargaining sectors, has undoubtedly been on the increase in recent decades. This has happened as a result of the *organisational centralisation* and the *bargaining decentralisation*, which has taken place, especially on the initiative of the manufacturing sector's employers, since the late 1980s. This initiative was motivated, not least, by the fact that bargaining first between the confederations, and then between member organisations at sector level, and finally at plant level, topped up with automatic cost-of-living adjustments, were all elements that increased the total costs for enterprises with virtually no consideration to their competitive situation. Hence, the cost-of-living adjustment was revoked by an amendment of an Act in 1986, and the role of the confederations changed from being key actors

²⁰ Cf. Navrbjerg et al. 2001:63-4. For a total overview of the provisions in the collective agreements on continuing/further education and training, see Due et al. 2004.

in the bargaining process to a more overall coordinating function²¹. This can be interpreted as a development towards greater emphasis on, among other things, local adjustment of wages.

Wage bargaining at local level is, however, far from being a new phenomenon in the collective bargaining system. As early as in 1902, it was stated in the metalworking industry's collective agreement that wages for 'skilful workers' could be fixed by agreement between the employee and his employer. However, in case they failed to reach an agreement, the shop steward would be called in. This was an industry agreement, based on the minimum-pay-rate system, fixing the minimum rate, and incorporating rules for the role and function of the shop steward. This system is basically identical with the system for wage bargaining found in the manufacturing sector today. Wage flexibility, that is performance-related pay depending on the performance of the employees and the results achieved, is thus an element that has been part of collective agreements for more than a hundred years. This is not to say, however, that the structure of the bargaining system has not changed in the course of the 20th century. Initially, the employers wanted to centralise bargaining to avoid that the many small and medium-sized firms could be played off against each other, but as mentioned with the possibility of local bargaining as well.

The bargaining area within the framework of LO (the Confederation of Danish Trade Unions) and DA (the Danish Employers' Confederation) operates with four wage systems: standard pay, minimum-wage, minimum-pay, and no fixed pay rate. Under the *standard pay system* the development of wages for the employees in question over a given agreement period is set by central bargaining. This system does not allow any local bargaining about adjustments of pay, and must thus be characterised as inflexible. In 1989, 34% of the employees in the LO/DA area were covered by standard pay agreements; in 1993, however, the rate had fallen to 16%. This rate has remained stable for the past decade, and at the collective bargaining round in 2004 the rate was also 16%. Then there are the minimum-wage and the minimum-pay systems. Under these systems pay is negotiated locally, and the rate agreed by central bargaining is only the minimum pay rate. These two, fairly flexible, wage systems cover the majority of employees in the LO/DA area. At the beginning of the 1990s some three quarters of all employees in the LO/DA area were included under these two systems; that figure is lower today; which is, however, solely due to the fact that *pay systems with no centrally agreed pay rate* have advanced, from covering just 4% of all employees in the area in 1991, to 22% in 2004²².

There are some studies indicating how the flexibility of the dominant wage systems on the Danish labour market compares to systems in other countries. A study from 2001 analysed the prevalence of 'variable pay', i.e. how widespread is the use of variable pay in the EU member states, defined as pay which one way or the other is related to individual or collective performance. The study shows that in major parts of the LO/DA area, pay is negotiated locally and typically related to productivity gains. The same study shows that in

²¹ Due og Madsen 1993.

²² DA 2004, table 5.12, and DA 2000, table 8.

Germany, seven out of ten agreements on variable pay were not linked to the collective agreements, but with agreements made between management and works councils. This should be seen against the background that the German system can be characterised as a standard pay system where wage increases are set in central agreements. However, the system also makes it possible to enter into agreements at plant level, which on the one hand may lead to higher pay increases, but on the other also to the so-called ‘opening clauses’ being invoked, which typically leads to a reduction in the wage level already agreed²³. A comparison between the dominant wage systems in Denmark and Germany respectively seems to indicate that in the manufacturing sector, the Danish wage system is overall more flexible than in the corresponding German industries. Another sign of this is that the German plant-level agreements in several cases have in reality undercut the sector agreements.

²³ EIRO 2001.

Forms of security in the collective agreements

Having looked at the four forms of flexibility, we will now turn to the four forms of security used by Wilthagen et al, to examine the ways in which these forms of security find expression in the Danish collective agreements.

Job Security

Job security here refers to the security of being able to keep a job with a specific employer. As already described, it is one of the characteristics of the Danish labour market that firing employees is relatively easy and flexible. In this perspective, the security of keeping a job with the same employer must be said to be low. As also demonstrated above, the length of service per job is relatively low in Denmark compared with other countries, and job changes are relatively common occurrences. In that way, job security mirrors the relatively high external numerical flexibility on the Danish labour market.

Against this background, it is quite extraordinary that Danish employees seem to experience their job security as high. In 1997, the OECD carried out a survey of job security. On average, 70% of employees in OECD countries reported that they ‘strongly disagreed’ with the statement ‘my job is secure’; in Denmark only 44% of employees said so²⁴. This placed Denmark as one of the countries where employees felt most secure in their jobs. This is quite a paradox. The assumption must be that, despite the low level of employment protection, perhaps the sum of regulation and also the well-established tradition for dialogue in the workplace combine to give the individual employee a sense of relatively high job security. It might thus be assumed that the agreements on co-operation at company level and the institution of shop steward play an important role for how job security is experienced. This positive evaluation by employees of their own employment situation is confirmed by more recent studies, such as a report in a weekly quality paper, ‘Tryghedsrapport 2004’²⁵.

Another feature in the collective agreements which contributes to job security is the so-called ‘light jobs’ for employees with diminished work capacity. This includes various forms of Social Chapters in the collective agreements, e.g. senior schemes offering reduced working hours to older workers. Even though a certain consideration for ‘older and weaker groups of employees’ has been noticeable in the collective agreements for several decades, it is only within the last ten years that schemes such as the ‘light jobs’ have been established. The background for this development should be found in the general political debate about the need for a more ‘inclusive labour market’, and in the fact that the social partners have chosen to take on responsibility for such initiatives and thus help develop job security for these groups of employees.

Occupational health and safety should also be mentioned in this context. Neither the physical nor the psychological health and hazards of the work environment directly belong to the collective bargaining issues in the manufac-

²⁴ OECD 1997.

²⁵ Mandag Morgen 2005.

turing sector – extracts of the Working Environment Act on rest time and rest days are, however, reproduced in the agreement. In 2001 the Confederation of Danish Industries and the Central Organisation of Industrial Employees agreed to give higher priority to the psychological work environment. There are indications that this extra focus is in fact in agreement with the every-day experiences of the shop stewards in the manufacturing sector. More than 90% state that they have discussed the psychological work environment with colleagues and management, and 70% agree, fully or partially, with a statement that ‘as a shop steward, you increasingly function as a kind of social worker for you colleagues’²⁶.

The type of problems addressed by collective agreements and e.g. agreements on psychological hazards in the work environment do not *per se* increase job security. But they help secure that tools are available to tackle problems experienced at the individual place of work. And in that way, such initiatives do contribute towards the job security of the individual or groups of employees.

Employment Security

The low degree of individual job security on the Danish labour market is to a certain extent compensated by a high degree of employment security, in other words security to continually be in employment. Some 250,000 jobs disappear every year in Denmark, but a similar number of new jobs are created, which is of paramount importance to maintain a high level of employment security²⁷.

Overall, it can be argued that the collective agreements have contributed towards employment security in Denmark in that the agreements have secured a rate of productivity and a level of costs that safeguard the competitiveness of enterprises, and consequently employment. In this context, the *Joint Declaration* issued by the social partners’ confederations, LO and DA, in 1987 plays a very important role, because the trade union movement here accepted wage restraint in order to secure employment. It could be said that since that declaration the trade unions have chosen to stake on ‘job feast over wage feast’ at the subsequent collective bargaining rounds.

It is probably more than just a coincidence that a similar agreement was concluded in the Netherlands in 1982, the so-called ‘Wassenaar agreement’. The Netherlands and Denmark are often singled out as countries where flexicurity is particularly well-developed. It seems reasonable to argue that two decades of agreement between the social partners to give top priority to securing *both* competitiveness *and* employment have been contributory factors in the building-up of the special flexicurity models found in the Netherlands and Denmark.

Furthermore, it is important to remember that continuing/further education and training systems are also important factors for employment security -

²⁶ Navrbjerg et al. 2001:56-8.

²⁷ This figure is debatable, as it does not reflect e.g. that workplaces may be split up or merged in the wake of company reorganisations. Furthermore, there are some groups, e.g. students, who tend to have many and short-term periods of employment. This could to some extent produce a skewed picture.

that is, securing that the workforce has the relevant qualifications. The active labour market policy is important, too, to secure the *flow* from unemployment into employment.

Income security

Income security is the security of being able to maintain an income when there is no paid employment to be found. On the Danish labour market, income security is first and foremost supplied in the form of relatively high unemployment benefits. The collective bargaining system is thus not relevant when it comes to securing income in case of unemployment.

Table 4: Net replacement rates in case of unemployment for the whole year, varying former income levels for ensured single APW, 1998

<i>Former income, per cent of APW</i>	Denmark	<i>Germany</i>	<i>Sweden</i>	<i>Nederlands</i>	<i>Great Britain</i>
75	80	59	80	71	26
100	63	58	70	71	20
150	46	58	52	68,5	14
175	41	55	46	60	12
200	37	49	41	54	10

Source: Hansen 2000:33²⁸

Table 4 shows to what extent unemployment benefits compensate for the lack of wage income for various income groups. Once more the Danish figures are compared to the corresponding figures for Germany, Sweden, the Netherlands and the UK. In all countries, income compensation is highest for the lowest income groups. For Denmark and Sweden, the compensation for low-income groups is relatively high, falling rather steeply for groups with higher incomes. Germany, and to some extent the Netherlands, start at relatively lower levels of compensation, whereas the size of the compensation falls relatively less markedly than in Denmark and Sweden. Clearly, the UK has the lowest level of compensation for all income groups. In terms of income security in case of unemployment, the Danish profile overall resembles the Swedish profile the most.

It should be borne in mind that there are several ways of calculating the size of unemployment benefit across countries. In addition to relating it to various income groups as in Table 4, the calculation can be seen in relation to the length of unemployment, compensation before and after tax etc. Generally speaking however, the level of compensation is high in Denmark, compared not only to other Northern European countries, but to OECD countries in general²⁹.

There can be no doubt that the relatively high level of unemployment benefit is decisive for the trade unions' acceptance of the ease and flexibility of firing employees in Denmark. From time to time, union representatives question the appropriateness of the policy allowing this easy access to dismiss-

²⁸ A similar table can be found in Braun 2004:34.

²⁹ Cf. Hansen 2000:31-35.

als. It could be argued that this questioning expresses a balancing of flexibility against security, where income security plays a crucial role for the employees and hence the trade unions. This also implies that there is a pain threshold to how much the level of unemployment benefits can be lowered or eroded before the trade union movement starts pointing to the ease of firing as a problem, and consequently demand more employment protection or, as mentioned above, individual job security. Exactly where this threshold lies is difficult to define or predict. It is a dynamic process involving many different elements. It is about the balance of power between employers and employees (and their organisations); it is about political trends and topical issues in the public debate. Therefore it might be expected that the debate in recent years about globalisation, outsourcing, offshoring etc might also highlight that potentially, due to the flexibility of its labour market, Denmark has some competitive advantages. This is just to mention a few examples of the elements that affect this balance.

Just how delicate this balance is between the size of unemployment benefit and the flexibility of regulation, and how observant the social partners are of it, was clearly demonstrated in the autumn of 2003. At that time, the centre-right government proposed a bill to reduce unemployment benefit for the highest income groups. Trade unions, key employers as well as employers' organisations all rejected the idea point-blank. Even though the government could count on the support of a majority in the Danish Parliament for its proposal, it was nevertheless unceremoniously removed from the political agenda. The manufacturing sector's collective agreement in 2004 sent an unambiguous signal that the social partners consider any political initiatives in this area as potentially undermining interference. A clause was included in the agreement stating that in case the government intervenes and changes the rules for unemployment benefit, then relevant parts of the agreements will have to be renegotiated.

Pensions should be mentioned briefly here as well, as the establishment of the labour market pension has formed part of income security since 1989. It is not a 'here-and-now' security, but security for income once an employee leaves the labour market. Thus pension issues have come to logically form part of the collective bargaining process, where employees secure the means for 'future spending power', and the employers that the pension savings are channelled into investments in Danish enterprises rather than individual consumption. The introduction of the labour market pension can be said to give the employees an indirect income security as long as they are active in the labour market, as it provides future security for the financial basis of their retirement. Once they leave the labour market, it turns, of course, into direct income security.

Combination Security

Combination security relates to the security of being able to combine paid employment with other forms of activities and obligations. In a Danish context, it relates to various leave schemes, but also to the right to training and education and job rotation. Combination security helps create a flexible labour market

where it is possible to participate in other civic activities for a while, and then return to ordinary employment.

The job rotation scheme is probably the tool of the Danish labour market policy which has attracted the most attention. It aims to temporarily replace employees participating in training or education with some of the unemployed, and thus neatly matches the line of thinking behind combination security. However, the tool was never widely used, and it has even been in decline for a number of years. The number of persons involved in rotation projects fell from 7,000 in the first quarter of 1998 to just over 2,000 in the same quarter of 2004 – and only about 20% of them were unemployed³⁰.

The three leave schemes from 1994 (educational leave, sabbatical leave and parental leave) also attracted a good deal of international attention. The rationale behind these leave schemes was that they would, at the same time, give busy families an opportunity for a time-out, upgrade the skills of the labour force, and on top give the unemployed a chance to gain a foothold on the labour market. Educational leave was compensated at 100% of the unemployment benefit rate, whereas sabbatical and parental leave schemes were originally set at 80%, but in 1997 reduced to 60% of the unemployment benefit rate. Throughout the 1990s the schemes were widely used. Since then use of the schemes has been in decline, and the possibilities for taking leave have been successively limited. Sabbatical leave and the educational leave schemes were abolished in 2001, but parental leave is still possible.

In 2003 maternity leave was extended from six to 12 months on full benefit, and at the same time was made more flexible. However, an issue just as important has been the question of the right to receive wages, and not just benefit, while on maternity leave; and this is of course where the collective bargaining system plays an important role. It has been discussed whether to attempt to even out the costs of maternity leave between collective bargaining sectors with many female employees and those with few by establishing one central maternity leave fund. During the collective bargaining round for the private sector labour market in 2004 it was decided to establish two funds: one for the manufacturing area, and one for the rest of the area covered by DA (the Employers' Confederation). On top of the equalisation between enterprises taking place via these decentralised maternity leave funds, which observe the traditional lines between agreements, thus respecting the sector-based bargaining system, there will be a cross-sectoral equalisation scheme³¹. The most recent improvements to maternity leave have taken place in the local authority sector, where the 2005 agreement stipulates that a workplace is guaranteed full compensation coverage when an employee is on maternity leave, and the employee is secured payment of full pension contributions during maternity leave.

All in all, the Danish labour market has several substantial elements of combination security in spite of the above-mentioned reductions in a number of leave schemes. The collective bargaining system, and in particular the

³⁰ Arbejdsmarkedsstyrelsen 2005.

³¹ Due & Madsen 2004b.

manufacturing sector's agreements, account for major contributions to combination security in the Danish labour market.

The Danish Flexicurity Model – Outlook

Looking overall at the role played by the collective bargaining system in Denmark in relation to the various forms of flexibility and security, it can be concluded that by international standards the collective agreements provide a high degree of flexibility within the parts of labour market regulation examined. The collective bargaining system also provides security. Above all the common understanding in the areas covered by the principal labour market organisations LO and DA since the late 1980s to protect competitiveness and employment has contributed towards the enhancement of employment security. Considering the concrete regulation provided by the collective bargaining system, it seems reasonable to conclude that the security provided, i.e. employment security, is of a more indirect nature. It really boils down to the intended effect of the common understanding established over the period. In continuation of this understanding, there has also been a common understanding throughout the period that job security (security of keeping a particular job) was not to be increased. Instead the focus has been on employment or employability security (the security of being able to get a new job).

There are, however, in addition to the above, a number of areas where the collective agreements can be claimed to have provided greater security in recent years. This has happened when education and training, pensions and a number of social issues (maternity leave, parental leave, improved security for sick employees etc) have become part of the agreements.

In this final section, we will point out a number of themes and issues that are of particular relevance in order to fully comprehend the preconditions and the future perspectives for the continuous development of flexicurity on the Danish labour market.

Decentralisation/multi-level regulation of the bargaining system and flexicurity

Wilthagen et al. (2003) state that it looks as if decentralisation of the bargaining systems in itself has a positive effect on the possibilities for introducing and developing flexicurity. This stands to reason as enterprise-based agreements offer more scope for special, local solutions. Decentralisation thus opens up for local compromises on flexibility and security, and perhaps even solutions where both management and employees can see an advantage in expanding flexibility, e.g. as to working time. Wilthagen et al. furthermore emphasise that it seems, based on the proliferating literature in the area, that central coordination of the framework for local solutions is an important precondition for the development of well-functioning flexicurity strategies³². Wilthagen et al. use the Danish bargaining system as an example where the decen-

³² Wilthagen et al. 2003:22. This literature also includes among others Sisson & Marginson 2002, Léonard 2001.

tralisation process has been marked by a concurrent central coordination – a process referred to as centralised decentralisation³³.

The ever more extensive decentralisation, leading to e.g. *framework agreements* being concluded at plant-level, together with the increasing importance of EU regulation leads to a bargaining system characterised by many levels of regulation – a multi-level governance system. In such a system there is a clear tendency towards the local bargaining levels acquiring more and more autonomy, which may lead to a weakening of the coordination between the central and the local bargaining levels. The question then is whether the coordinated or centralised decentralisation of the collective bargaining system, which has taken place over the past decade or so, and which must be described as a precondition for the development of flexicurity on the Danish labour market, is under threat from multi-level regulation? Will increasing autonomy to conclude agreements at plant-level skew the balance between flexibility and security? And will a feeling of potentially greater insecurity among employees lead to demands that may eventually reduce flexibility?

The increasing scope of issues in the collective bargaining and flexicurity

Just as decentralisation in the bargaining system is a precondition for the form of flexicurity which has developed on the Danish labour market, so is the increasing scope of issues included in the content of the agreements making a substantial contribution to the particular balance between flexibility and security on the Danish labour market. It has been observed in the countries whose regulation is especially marked by flexicurity that a greater scope of issues included in the collective bargaining allows more room for *trade-offs*, negotiated compromises, between flexibility and security³⁴.

This implies that when issues such as education and training, pensions, leave schemes, ‘light jobs’ etc form part of the bargaining process, then, all other things being equal, it becomes possible to strike new balances between flexibility and security that are acceptable to both employers and employees.

This then raises the question whether any of the issues included in the bargaining process over the last couple of decades contribute more than others towards the development of flexicurity? Another question of course is what will happen in the future: is it necessary to go on broadening the scope of issues in the collective bargaining process to further develop flexicurity on the Danish labour market? And if yes, which issues will be important to include – in other words, which new issues are likely to add new dimensions to flexibility and security?

The EU and the Danish flexicurity model

As shown above the vast majority of regulatory initiatives in recent years, on e.g. collective dismissals, working time and the so-called atypical employment (part-time or fixed-term employment), are the result of EU regulation. Gener-

³³ Jf. Due et al. 1993.

³⁴ Wilthagen et al. 2003:23.

ally speaking, this regulation is minimum regulation, fixing a lower level for European regulation in the areas in question. Studies carried out so far seem to indicate that the actual effect of the EU regulation on the Danish labour market has been relatively limited, even though in a few selected areas the directives have made a difference³⁵.

Likewise, it must be assumed that EU regulation has so far only to a limited extent had an effect on the balance between flexibility and security on the Danish labour market. It remains to be seen how EU directives and other European regulatory initiatives such as voluntary agreements between the social partners, open coordination etc, will affect the Danish flexicurity model in the future.

Flexicurity for all?

Even though flexicurity is relatively widespread on the Danish labour market, and not generally split in two, so that e.g. some areas or sectors have flexibility and others security, there are groups on the Danish labour market who do not benefit from this inter-connectedness of regulation to the same extent. A striking example in this connection is immigrants. The employment rate of immigrants is around 50%, i.e. some 25% below that of ethnic Danes. This difference is due to a number of circumstances, some of which are related to the flexicurity model. There is no statutory minimum wage in Denmark, but the minimum wage fixed by collective agreements is at a level which, according to the OECD, constitutes a barrier to immigrants with relatively low skills. Secondly, according to the OECD, the 'relatively generous' transfer incomes undermine the incentives for immigrants to seek employment (OECD 2004b). Other circumstances probably have an impact on integration as well. Lack of skills, lack of recognition of immigrants' qualifications, job and educational preferences 'imported' from other countries, internal recruitment in Danish enterprises, and direct and indirect discrimination of immigrants on the labour market are other important factors affecting the integration of immigrants into the labour market (see e.g. Mailand 2004) – but such factors are not directly linked to the Danish flexicurity model.

A potential negative effect of flexicurity is about the incentives for enterprises to train and educate their employees. A consequence of the high mobility among employees is not only that employees manage to find a new job in case of restructuring or if the firm closes down. It also implies that good, skilful employees leave the firm if other employers can offer more attractive jobs and/or higher pay. The high numerical flexibility thus also implies a potential risk of losing employees. This risk may put a damper on the willingness of enterprises to invest in continuing/further education and training of their employees. A high degree of labour market mobility may therefore have negative consequences for the total level of continuing/further education and training of the workforce.

³⁵ Cf. Andersen 2003.

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