

**Active Labour Market Policy in Denmark as an example of
Transitional Labour Market and flexicurity arrangements –
What can be learnt?**

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The last decade has seen sweeping changes in labour market policies across Europe, usually in an attempt to secure competitiveness and catalyse economic growth. However, it seems certain that many of the challenges facing economic development today will not disappear in coming years but, quite the contrary, are likely to become exacerbated in the future. Although changes to the European labour market have consistently been influenced by strong demands for “flexibilisation”, the focus in both academic and political contexts has usually been on how to combine these demands with social protection (Wilthagen 1998; Schmid 1998). Hence, there has been a great deal of discussion regarding the potential creating a special “European Way” that combines economic growth and competitiveness with social protection. As a result of these debates, political expectations have emerged based on the belief that it is possible to develop a unique European policy strategy as an alternative to the "American Way" (c.f. Wim Kok reports). With this goal in mind, many experts have suggested that the concept of “transitional labour markets” (TLMs) offers a broad theoretical and policy framework for developing a qualitative growth strategy (Schmid 1998). Furthermore, the introduction of the notion of “flexicurity” (Wilthagen 1998, Wilthagen et al. 2002) as a possible policy strategy and analytical perspective for bridging flexibility and security, has made this issue a top priority. However, while these concepts have been propelled to the forefront of debates in both academic and legislative circles, understanding and testing strategies in practice is a different issue altogether. This being the case, certain recurring questions need to be addressed. Specifically, how can an understanding of the need to balance economic and social considerations be created and, more importantly, is it actually possible to construct a transitional labour market in the real world? In other words, can considerations for economic growth and social protection really go hand in hand?

These questions naturally lead to a search for examples (preferably positive) of TLM’s and flexicurity arrangements. One of the cases often mentioned in this context (and rightfully so, to a certain extent) is Denmark, and the special labour market policy it developed over the course of the 1990s (Schmid and Gazier 2002, Wilthagen 2002). In Denmark, the mid 1990s saw the introduction of a number of TLM arrangements, including job rotation and leave schemes, geared towards improving the employability of

the unemployed. In general, Danish labour market policy during this period was based on a combination of low job security and high levels of social protection in terms of the level of unemployment benefits available and the right to upgrade skills in order to improve employability. At the same time Danish labour market policy from the mid 1990's on has been extremely successful. For instance, unemployment has decreased dramatically, serious inflation problems and bottlenecks in the labour market have been avoided, and important welfare-political elements have been maintained, despite significant pressure for their removal (Larsen and Stamhus 2000).

The positive shifts in Denmark's labour market policy have been so remarkable that the situation has been referred to as the "Danish job miracle" (Madsen, P.K. 1999, 2003). Therefore, the Danish case may constitute an example of TLM and flexicurity strategies that have stood the test of practicability. If so, there is every reason to investigate and evaluate what can be learned from the Danish experience, with particular focus on which of the experiences are transferable to other countries. This paper will deal with this "learning" aspect in order to determine if the Danish experience can be used as a successful and transferable example of TLM and flexicurity arrangements.

When investigating this issue, it is important that the limitations inherently involved in transposing the experiences of one country onto another be kept in mind. Thus, regardless of whether Schmid and Gazier are correct in their assertion that the quest for "one best practice" is ultimately illusory (Schmid and Gazier 2002), there is a tendency for the TLM approach to exaggerate the applicability of certain general principles across countries (Bredgaard 2004). In addition to problems related to inappropriate analogues, there is also a tendency to focus excessively on the (often statutory) synthesis of policies in successful countries, based on the belief that it is possible to transfer this mix to other countries by designing effective policy. This explains why policy design is frequently perceived as the all-decisive factor determining the success of labour market measures, while the role played by institutional setting tends to be underexposed. Unfortunately, there is no reason to believe that the path to good control is only a matter of "designing" first rate policy. In fact, it is just as important to determine whether, and if so, how,

political-administrative interventions and their institutional preconditions can be formulated and steered. In other words, it is not only a question of directing resources, information, causal theory and co-ordinating institutions, but also one of actor interests, the exercise of power, discursive activities, narrow-minded actor-horizons, and the behaviour of actors involved (Jorgensen 2002). Consequently, this paper will use a somewhat different understanding of the preconditions of the success of the Danish policy (and what can be learned from it) than the one usually put forward.

It is actually somewhat of a paradox that Denmark is often presented as a model for TLM and flexicurity arrangements, because the Danish situation is not the result of a deliberate TLM or flexicurity strategy. Instead, Danish labour policy is based on practical experience and the outcome of power struggles between actors that cultivate rational, 'matter-of-fact' approaches to policy-making. In this sense, identifying a permanent core of rationalised conceptions about labour market problems and measures aimed at solving them will be extremely difficult. In other words, it is going to be a serious challenge to develop a causal or policy theory which experts and policy-makers in the field recognise as valid and largely share (Parsons 1995, Peters 1998). It will thus not be possible to find well-defined policy strategies (or even legislation) that consciously deal with the balancing inherent in the in the concepts of TLM or flexicurity. This is not to say that policy choices cannot be made, or that there are no causal assumptions behind them, but that locating an unambiguous causal theory and associated strategic policies is easier said than done. To understand Danish labour market policy, this analysis will look primarily at co-operative ways of balancing these considerations. A major reason for this is that many measures have developed institutional roots and achieved stability because, among other things, over time the actors involved have learned to incorporate other parties' deliberate 'rationality'. Another trait particular to Danish policy is the historically established acknowledgement that labour market policy includes both economic and welfare/political goals that are not mutually exclusive. This is due to traditions such as consensus-creating institutions in the labour market, pronounced regionalisation, and strong corporatist steering arrangements that collectively allow policy *takers* to become policy *makers*. Of course, new policy mixes (or designs) have been developed in the

labour market political arena. However, using the choice of policy as the only point of departure – based on a ‘rationalised’ understanding of the Danish developments – would be misleading. Instead, this paper contends that the Danish model hinges on historical results in conjunction with corporatist steering arrangements which, taken together, have clearly contributed to an increase of consensus-forming resources in labour market policy. The policy is very much sustained by the regionally developed policy communities. The policy style of broad participation by organisations and collectivist culture were created in a context of establishing these dispute-resolving arrangements.

Admittedly, this point of view makes policy-transfer much more difficult. Nevertheless, there are sound reasons for looking at the Danish policy mix and institutional setting from a learning perspective, not the least of which is that it might lead to new types of policy recommendations, giving more weight to the impact of institutional settings!

Let us begin by having a closer look at the political history of the Danish labour market. First, a short description of Danish industrial relations and their importance for labour market policy will be put forward. Second, a brief historical overview of recent Danish labour market policy will be presented.

Industrial Relations and Labour Market Policy

In order to understand Danish labour market policy and the relatively consistent balancing of economic and welfare/political considerations built into it, it is necessary to understand the politics of Danish industrial relations. As early as 1899, Danish labour market parties entered into an agreement (known as the September Compromise) that focused on labour market disputes and how to solve them, as well as the appropriate role of organisations in the system. This established centralised negotiations and mechanisms for resolving disputes, and also laid the foundation for the practice of self-regulation by labour market parties in most matters of importance to the labour market. This is why it was not until the 1960s that proper labour market policies were formulated, thus giving public authorities a more active role in its management.

Generally speaking, the Danish Parliament has played a smaller role in labour market policy than might be expected. A change of government has rarely led to substantial reforms of labour market policy, and the norm has been broad political compromises if reforms are needed. The Danish tradition of minority and frequently changing governments is an important factor behind this characteristic of Denmark's political system. However, deeply rooted corporatist structures, dating back more than 100 years, are another important influence. Both in regards to policy-making (where consultation and participation by the parties have been a tradition), and administration (with tripartite representation in councils, committees and commissions) the salience of corporatist structures has been clearly reflected in Danish labour market policy (Larsen 2002). Due to their importance, the "fingerprints" of the labour market parties are highly visible on the policy side. Certain policies have involved a "moderate" degree of public intervention (when viewed from an international perspective), while others have been characterised by a balancing of economic and welfare considerations (Larsen & Jorgensen 2002). In implementation, too, the parties have played a significant role. When the labour market was emerging as an independent policy domain in the late 1960s, corporatist structures were established. At that time, a national corporatist body (the National Labour Market Board -now the Employment Council) along with 14 regional corporatist bodies (labour market boards, now known as labour market councils) created the framework for the corporatist system. The councils were given varying, but generally increasing power (Jørgensen 1985 and 1986) and, in the 1990s, the corporatist structures were strengthened considerably. It is remarkable that Denmark - diverging from international trends towards de-corporatism - further empowered corporatist structures in the 1990s by allowing them new steering and implementation arrangements.

In regards to the corporatist political steering system, there was an early realisation that it would only be possible to create a successful labour market policy if the state's consensus-building resources were increased. This could only be accomplished by including interest group organisations in the making and implementation of policy, which led to the influence and decision-making system described above. In this way, the organisations in question could be integrated, and thereby help expand the scope of the

state's activities. However, there is yet another dimension to the institutional setting that can be observed, for instance, in the implementation process (Larsen et al. 1996).

Historically, once institutions have been established which influence the orientation and behaviour of actors, feedback mechanisms emerge which in turn strengthen institutional regulation. A special policy style therefore evolves that is typified by organisational participation and a collectivist culture. The institutionalised role of the labour market parties must therefore be recognised as an important driving force behind labour market policy. In the same vein, it is extremely important that labour market parties are an institutionalised part of similar steering systems related to other aspects of labour market policy, notably in the areas of occupational health and safety, vocational training, and adult education.

There are, however, clear limits to the influence the parties are able to exert on labour market policy. This is true in a historical context, but also in relation to contemporary developments that began in the late 1990s. For one thing, the consultative role played by the parties in the political system seems to have diminished. For another, certain "roll back" tendencies have been observed that are connected to the revitalisation of administrative corporatism spearheaded by the labour market reform of 1994 (Larsen and Stamhus 2000). In addition, local authorities have been given important labour market tasks, and within this set-up labour market organisations have little influence. Finally, attention has to be drawn to a number of new labour-market related problems, which have presented the tripartite system with challenges it has thus far found difficult to cope with in the traditional setting. Even though Danish labour market policy in the 1990s can only be described as a success story in terms of solving structural problems and combating unemployment in general, efforts to re-integrate heavily marginalised groups and incorporate refugees and immigrants into the labour market have been far less successful.

Generally speaking though, it is a fact that labour market parties have been and continue to be an important driving force behind the development of Danish labour market policy. When (as there is now) a marked interest from abroad in the reasons behind the success

of Denmark's policies, it is essential to draw attention to the institutionalised influence of the labour market parties. Compared to previous examples of labour market policy success (e.g. Sweden's early pioneer status in this area), Denmark's accomplishments are much harder to explain. As stated at the beginning of this paper, it is difficult to identify a hard-and-fast core of rationalised theories about labour market problems and appropriate measures for solving them. This has in many ways turned out to be quite expedient, as the conditions of the labour market have been so unpredictable, volatile, and subject to cyclical changes that new kinds of measures have constantly been called for. Complex and perpetually changing problems cannot be solved effectively and efficiently by bureaucratic machinery based on fixed, detailed legislation and administrative regulation. On the flip side however, there is also a possibility that the lack of rationalised theory may cause problems. For instance, hurdles can arise if short-sighted power struggles and narrow organisational interests are allowed to dominate to such an extent that the need to develop viable solutions to labour market problems is neglected.

In order to understand Danish labour market policy – and its present success – the point of departure should be an attempt to understand the distinctive Danish manner of balancing economic and social considerations. A special trait of Danish policy is that a historical understanding has emerged that labour market policy comprises both economic and welfare policy goals, and that there need not be a conflict between the two. These preconditions rest on the central role played by labour market organisations, both in terms of political consultation and as agents of implementation in administrative corporatism.

The development of Danish labour market policy

The 1960s was the formative period for Danish labour market policy, starting with the introduction of the unskilled workers' training programme in 1960, and the institutionalisation of continuing adult vocational education for skilled workers in 1965. However, the most significant event in the decade was the creation of the public employment service in 1969. Underlying the service was the perception that, during

economic booms, there is a special need to promote employment mobility in order to prevent large wage increases and inflation; and that a flexible labour market requires the state to guarantee support for workers who are temporarily unemployed. The next central issue for the public sector in this context was to facilitate matching of the supply and demand for labour.

Economic rationality is thus the primary foundation of Danish labour market policy. The fear that developments in the market will destroy the macroeconomic balance has historically been – and still is – one of the strongest political arguments in support of public intervention. In the 1960s, allocation was established as the cornerstone of Danish labour market policy. This was a period characterised by prosperity and manpower shortages. Supplying businesses with workers and finding jobs for the unemployed came to be seen as a government matter, and the public employment service system became the centre of Denmark's labour policy, which has since found its basic legitimacy in allocative tasks.

Early on, Danish labour market policy also comprised elements of welfare and redistribution. A very generous (by international standards) and primarily government-financed benefit support system was established in 1969 and fairly wide frames for support were adopted. Unemployment benefits and the state's role in financing them were increased, eligibility requirements for insurance and unemployment benefits were reduced, and high levels of compensation for lost income were secured. In return, employers were exempted from compensating redundant employees, as this responsibility was taken over by the state. Consequently, employers have never had to secure employment and pay for redundancies, and the hiring and firing costs of Danish businesses have remained very low. This could be called a mix of high welfare state protection and low employment security, and can in fact be seen as an early version of a flexicurity arrangement.

When labour market policy became an independent policy field in the 1960s, it somehow

took in complementary elements of government ‘market lubrication’ and welfare protection. Until the mid-70s, politicians thought that economic growth and full employment were permanent, and that concepts such as depression and mass unemployment were obsolete. Unfortunately, they were incorrect: Danish unemployment rose from 2% of the labour force in 1973 to 7% by the end of the 1970s, and to approx. 9% by the 1980s. The emergence of mass unemployment meant that the existing support elements were put to serious test; and at the same time a number of selective measures were introduced to remedy some of the human costs of unemployment and to ensure training of the reserve labour supply. The policy raised the level of ambition dramatically and redistributive elements were brought to the fore. The right to employment and financial support therefore became central elements of labour market policy during years of economic crisis and growing unemployment. Ensuring employment combined with financial support became the new main functions of labour market policy. The right to employment was realised through government-initiated employment-creation programmes, public subsidies to private and public employment projects, and (briefly from 1983-85) public production. Furthermore, reduction of the supply of labour via early retirement incentives was prioritised, leading to the introduction of the early retirement scheme in 1979.

In many ways, this was an extremely passive policy due to a tight association with the financial support side of the policy, which became increasingly significant as unemployment grew. Mass unemployment thus placed a heavy burden on public expenditures. High unemployment increased the incentive to become insured, and access to insurance kept expanding until 1979. Overall, it was a very generous system: after one year of participation in the unemployment insurance system (known as *a-kasserne*), the unemployed were entitled to up to 90% of their former income. The only requirement at that time was that the unemployed were actively seeking employment and had worked a minimum of 26 weeks’ in the past three years. The non-insured recipients of social assistance received approx. 80% of the compensation received by those with insurance. As such, the employment schemes were instrumental in keeping the majority of the unemployed within the insurance system. Offers of employment, and later training, were

tailored to meet the requirement of 26 weeks' employment after 2 years' unemployment, and the unemployed could thus remain in the insurance system almost indefinitely.

The expansion of employment schemes in the 1970s was a result of political compromises revolving around fiscal tightening that functioned to increase unemployment. In response, the state developed more employment-creation packages. The welfare protection system was also expanded in relation to individual employees. Besides being a Social Democratic key issue, another motive behind the proliferation of employment schemes was that, in Denmark, trade unions manage the unemployment insurance system. Along with a strong and expansive insurance scheme, tight affiliations between insurance systems and unions have become the most effective channel for union recruitment. As one of few countries, Denmark saw an increase in the level of unionisation during the crisis, because of the unions association with the insurance system.

The incorporation of the right to employment and an expansive insurance system into Danish legislation has been highly controversial for several reasons. First and foremost, employers have criticised the manner in which social policy elements have been introduced into labour market policy via employment policy. Partly in relation to what must be defined as the primary (allocative) tasks of the AF system, and partly because of a common neo-classically inspired argument that once the incentives for the unemployed to find work become too small, the wage factor loses some of its weight in creating a balanced labour market. From an international perspective, the latter argument in favour of reducing support systems has not had a noteworthy impact on the labour market policies pursued.

The centre-right government in the mid-80s tried to reintroduce supply-demand matching as the main task of labour market policy by subordinating tasks motivated by redistributive policies to more service-like matching tasks, thereby giving service for the ordinary labour market top priorities. However, the fact that Danish labour market policy contains both economic and welfare/political elements was never questioned.

Consequently, the expanded employment schemes and financial support system were not changed in any significant way.

At that time, concerns were growing about the effects of passive employment and support schemes on the willingness and ability of the unemployed to re-enter the labour market in case of job openings. Due to this concern, training and skill enhancement were made central elements of labour market policy in the 1980s. Training and education became the new focus of both the employed and unemployed. This emphasis on continuing adult vocational education and supplementary training in turn made the labour force more flexible. For example, in 1985 employment schemes were supplemented with the basic education scheme, which allowed unemployed people without any post-school qualifications to receive education and training in between periods of employment.

The decision to increase resources for education, training, and skill enhancement could also be interpreted as an attempt to make Danish employment schemes less passive. It is interesting to note that the policy was made more active through skills-related initiatives, and not through cuts in employment offers or financial support. In other words, the compromise struck in the 1960s to balance labour market flexibility with security protection for wage earners was upheld – even under a centre-right regime. In spite of a centre-right government, a shift towards more free-market oriented policy and general criticism of the welfare and rights-oriented schemes mentioned above all remained intact until the early 1990s. Despite these efforts, Danish labour market policy during this period remained very passive. In addition, employment and training schemes were designed to secure the rights of the individual in the system rather than to actively promote skill enhancement or incentives for unemployed to work. However, new discourses paved the way for a policy shift in the 1990s.

The ability to work and work ethics as they apply to the unemployed were drawn into question, and structural unemployment (manpower shortages concurrent with high unemployment) was high on the political agenda by the end of the 1980s. A brief economic recovery in 1985-86 exposed the existence of bottlenecks despite high rates of

unemployment. Political discussions about the effects of these types of structural problems on the labour market became the starting point for a new policy development. In particular, the new discourse criticised the passive and expansive nature of employment and support schemes. Financial support, motivation, and training were all defined as problem areas – reflecting the predominance of neo-liberal themes at that time. Implementation of the changes in a practical sense, however, took a different course.

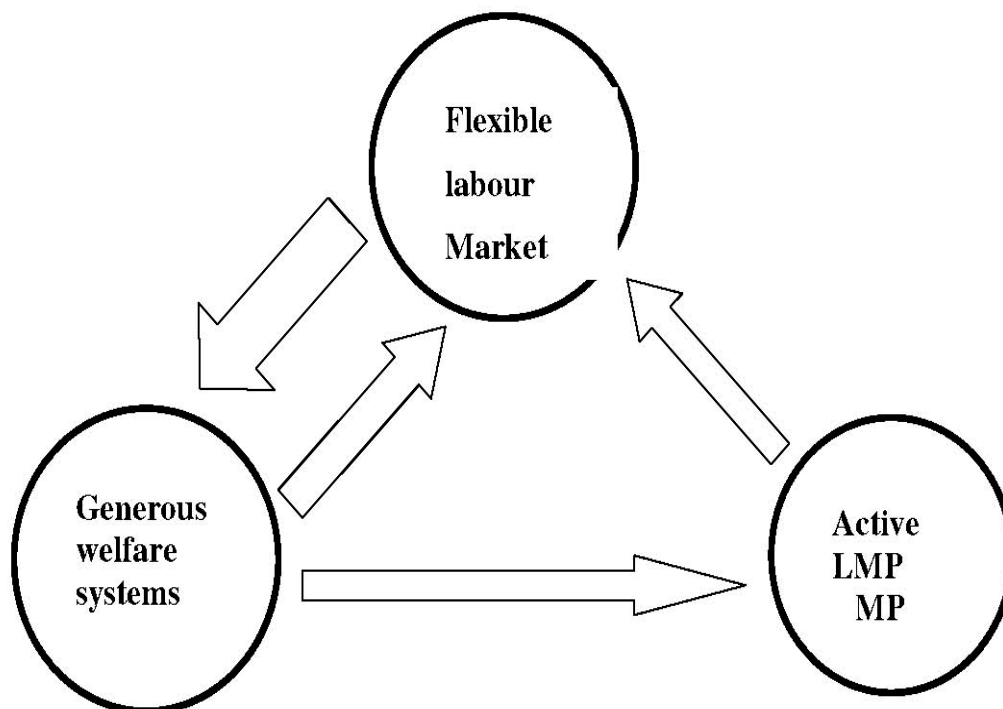
The Labour Market Policy of the 1990s -a New Policy Profile

While discussions regarding the labour market during the late 1980s and early 1990s focused heavily on "structural problems" and in particular on the negative consequences of passive and extensive employment schemes, it quickly became clear that actual cuts in the unemployment benefit level were not politically feasible. Instead, a committee set up by the government (known as *the tripartite Zeuthen committee*) proposed the development of more active policies by introducing individualised and tailor-made skill-enhancement efforts and reducing the insurance period. This need-oriented activation effort would be realised through radical regionalisation (including strengthened regional corporatist bodies) and the introduction of individual action plans that would specify the activation process in addition to functioning as a contract between the labour market system and unemployed individuals.

A new type of labour market 'deal' was made with the introduction of the labour market reform act of 1994. The period was characterised by fiscal tightening and a politically accepted high rate of unemployment, compensated for by far-reaching protection systems administered by unions. As a result, a giant leap was made towards an expansive fiscal policy that involved early individual education and training for the unemployed, and new regionalised, corporatist steering arrangements. Furthermore, the almost 'sacred' protection systems came under attack, with shorter insurance periods, tougher availability assessments, and compulsory activation. The benefit level remained unchanged, but the right to unemployment benefits could no longer be regained via activation or employment schemes. From almost indefinitely, the maximum period an individual could stay in the

insurance system was set at seven years, with the possibility of an extension of up to two years' leave.

In combination with the reform, leave schemes helped institutionalise the idea of exiting the labour market thanks to public support. Leave schemes incorporating up to one year sabbaticals, child care, and training/education while on unemployment benefits (only 80% for the sabbatical scheme) were introduced in order to reduce the labour supply. These rights applied to the employed as well as unemployed. Conditions conducive to leave-taking were significantly reduced during the 1990s, and sabbatical leaves have now been abolished (educational and child-care leaves still exist but at a very low level). A promising instrument from a TLM perspective - job rotation – was then introduced that combines initiatives for the jobless with training for the already employed. As stated in the introduction to this paper, this strategy proved to be extremely successful: unemployment was halved in five years, causing very few bottlenecks or inflationary problems. Thus, the problems with structural unemployment and the negative consequences of passive employment and support schemes seem to have been solved. This has been described as a "job miracle", and has helped propagate the image of "the golden triangle" of flexicurity (Madsen, P.K. (2003):



*Figure 1 :
The Danish
Flexicurity
Triangle*

Source:
Madsen
2003

Despite the success the 1994- reform has been adjusted several times since its inception. Each 'reform' has been a step towards increased utilisation of the policy by enrolling more and more unemployed individuals. Regional corporatist bodies have lost part of their powers in areas such as statutory, mandatory activation and consequently have less need for guidance. Other effects have stemmed from restricted access to the unemployment benefit system, a reduction of the total unemployment benefit period from seven to four years, and tougher availability assessments. The local authority activation scheme was legislatively expanded to include all non-insured social welfare recipients, and an option to reduce cash benefits for truants was introduced. Also, the conditions required for participation in the various leave schemes have been reduced significantly, in effect all but abolishing the job rotation scheme.

In 2003, a new labour market reform took effect that considerably reduced the number of initiatives designed to help upgrade the skills of the unemployed. Instead, more emphasis is now placed on guidance and contact meetings, as well as subsidised job training. In a sense, this can be seen as a dramatic change of direction compared to the active labour market policy of the 1990s. However, due to increasing unemployment and major redundancies in the wake of increased outsourcing of production to low-wage countries, the government has expanded training programs, especially for unskilled and low-skilled workers.

To sum up the development of Danish labour market policy since the 1994 reform, it can be concluded that initiatives have included complementary elements of both social disciplining and social integration (Larsen et al. 2001, Bredgaard et al. 2003):

Figure 2: The active line -Policy alternatives and strategies

	Active-line		Passive-line
	Social disciplining	Social integration	Social compensation
Problem	Insufficient economic incentives to take and seek jobs	Insufficient competencies and qualifications to achieve a job	Insufficient income support
Instruments	Work obligations and demands	Needs-oriented (re)qualification	Income compensation
Incentives for behavioural change	Extrinsic motivation (sanctions)	Intrinsic motivation (help-to-self-help)	None
Orientation of problem solution	labour market/employment	labour market/employment and social orientation	Social orientation
Welfare state contract	Conditional (work obligation) “Something-for-something”	Conditional (employability) “Something-for-something”	Unconditional in relation to work obligation and employability “Something-for-nothing”
Partial objective	Work first	Improve employability	Improve life quality
Final objective	Self-sufficiency		Social security and equality

There is, however, no doubt that Danish policy has been shifting from a considerable focus on social integration to a much higher emphasis on social disciplining. This marks a discursive shift in substance, in which Denmark's unique workfare policy (social disciplining), that includes strong elements of social integration (welfare), has taken a more traditional turn. That is, understanding of the problem rests on the premise that the unemployed lack motivation and incentives to take a job (i.e. are *unwilling* to work), rather than on the premise that their unemployment is due to a lack of qualifications (i.e. are *unable* to work). Consequently, social disciplining elements are gradually becoming more and more prominent in Danish labour market policy.

Various arguments have been used to justify the above restrictions and changes to the 1994 reform, but the fact remains that Danish labour market policy tries to take into account both supply and demand, and to balance considerations in terms of allocation, welfare and development. One goal is definitely to make employees more flexible in

relation to the demands of the labour market, but at the same time to give them options and truly improve their chances of gaining and holding employment.

The preceding analysis begs certain questions: what are the characteristic ingredients of Danish labour market policy in a comparative perspective, and what are the principle strategies guiding public intervention (driven by the state) as well as neo-classically inspired market solutions? Many have categorised Danish labour market policy as a proactive workfare strategy (Cox 1998, 1999; Torfing 1999, 2000). However, despite certain workfare-inspired elements, Danish policy does not really seem to fit into this category, at least when a narrow definition of workfare (i.e. a requirement to work in return for social benefits) is used. The workfare label is inappropriate for several reasons. First, as a result of its long history, welfare elements in Danish labour market policy are still very comprehensive by international standards. Second, despite close links, the benefit system is not tied exclusively to a quid pro quo arrangement of work requirements. For example, until the autumn of 2003 there had not been any substantial discussion about reducing the financial support level since the political process preceding the 1994 labour market reform. It was not considered politically correct at the time, and is still frowned upon to this day. Thus, in the autumn of 2003, the centre-right government proposed a reduction in the level of unemployment benefits for high-paid workers by requiring them to finance the initial period of an unemployment spell themselves. The minority government managed to establish a narrow majority for its proposal, but heavy criticism from employer organisations and unions placed a great deal of pressure on the government. However, the Prime Minister, Anders Fogh Rasmussen, stood his ground and announced on Danish television that reducing the unemployment benefit level would continue to be government policy. This led to a storm of protests from all sides, including some very influential business people. In particular, labour market experts worried about how such an initiative would affect mobility in the labour market, and employers were concerned with how it would affect the bargaining of pay and working conditions in general. The Prime Minister (conveniently) was on holiday in Mexico at the time and the finance minister, Thor Pedersen, withdrew the proposal on his own initiative. This incident illustrates how difficult it is to alter the level of support in Denmark, especially when

both employers and unions clearly realise the advantages of balancing flexibility with social security. Another repercussion of this “benefit blunder” was that collective agreements now contain a clause for renegotiation in case the government changes the rules for unemployment benefits. This is a strong signal indeed from both sides of the labour market that political intervention into the level of social support will have serious consequences.

The labour market policy now in effect is not free from tensions but, on the whole, typical either-or strategies have been turned into complementary strategies. The Danish initiatives from the 1990s consist of equal parts innovation and imitation. Welfare and workfare elements are mixed in a special way and adjusted to Danish service capitalism’s structural traits, institutional and organisational traditions, and political norms in regards to solutions. Therefore, the steering side is also a key factor in the success story of Denmark’s labour market policy. In the domain of steering, the Danish tradition of corporatist arrangements has been strengthened, in conjunction with a significant regionalisation of power in designing activation measures. In contrast to the assertion that Denmark’s labour policy reform buttressed international de-corporatist trends, the available evidence indicates that it actually strengthened the role of labour market partners, especially at the regional level. Private interests are institutionalised as part of public authority.

The connection between steering and policy content

As mentioned before, the labour market parties have been and still are an important driving force behind the developments of the Danish labour market policy. Insight into this fact is absolutely essential in order to understand the peculiar Danish way of balancing economic and social considerations. This is above all due to the fact that a lot of measures have won an institutional rooting and stability.

The institutional set-up provides a – until recently at least - fairly undisputed setting for

how the policy can develop. There will certainly be inspiration from international trends, but e.g. a work-first approach will end up having a distinct Danish design in a Danish context. Duties and demands will be accompanied by opportunities to increase one's employability through skills-upgrading in the policy pursued in practice, often due to the intervention of the trade unions. Or actually rather out of consideration for the interests of the trade unions, even in cases where they do not actively demand it. The policy is thus balanced, and therefore earns legitimacy with the actors involved, which has turned out to be a success since the mid-1990s. So perhaps it is not the policy design as such that is the linchpin. Perhaps it is in the institutionalisation of the implementation of the policy (with a public framework for social dialogues surrounding the labour market measures) that we find the crucial factors. This gives rise to asking new questions, both in the labour market political discussion and in research: questions that focus more on the institutional set-up. E. g. when focusing in a TLM- understanding (Schmid 1998, Schmid and Schöemann 2004) or in a "flexicurity-perspective" (Wilthagen et al. 2004) on the question *how to manage social risks* – it might be more appropriate to focus on the "manager". That is, who is going to manage social risks (this would also involve some fundamental welfare-state considerations as to the degree of individualisation). Such an institutional focus tends to be severely underrepresented in discussions on the organisation of labour market policy, as well as in the discussions about the transferability of policy designs across countries (Larsen 2004).

Recent changes in institutional set-up and their potential consequences for activation

Interestingly, there is a huge political focus on the institutional set-up in Denmark at the moment. Politically initiated changes are under way, which may change the Danish institutional set-up in a totally new direction. It is difficult to tell whether this is because the Danish right-wing government realises the importance of changing the institutional set-up if the policy is to be changed fundamentally. That is, the result of a deliberate strategy. Or whether it is more a matter of copycatting elements from other countries

(primarily the Netherlands), which then may have more indirect (and perhaps politically unrecognised) consequences for the special institutional set-up of the Danish labour market policy. At all events, major changes are under way, which will come about mainly in the wake of the new “local-authority reform” (including the introduction of a “one-stop shop system”) and a beginning contracting out of the public employment service. A reform was passed in the Danish Parliament recently, aiming to create larger local authorities. In the political process leading up to the reform, labour market policy became an important piece in the game. In order to persuade the local authorities to accept larger units, the implementation of labour market policy was used as bait: if the local authorities become considerably larger, then local authorities will be able to take over a considerably larger share of the labour market political tasks. At the same time it was suggested, heavily inspired by the Dutch experience, to establish a one-stop shop system. This proposal has since been adopted. The idea is to establish some joint state- and local-authority job centres, and to launch some purely local-authority-run job centres on a smaller scale on a trial basis. The different models are then to be evaluated prior to a final political decision. The introduction of purely local-authority-run job centres is an outright attack on the labour market parties’ influence on policy. But also the general reorganisation of the area will lead to marked changes in the role played by the parties. From the existing corporatist bodies having a substantial proactive influence on the design of the initiatives (input), the role of the parties will change into a more reactive one, where the main tasks will be to monitor the effects (output), with the possibility of imposing sanctions on the job centres and the local authorities (by handing over the tasks to private agents). These sanctions are furthermore connected with the government’s aim of expanding the use of private agents in the measures, as the 2002 labour market reform ‘More people into employment’ opens up for. No doubt this possibility of transferring tasks to private agents should also be seen in the context of the ways in which the existing public implementation systems try to secure a balancing of social disciplining and social integration in the implementation process (Larsen et al. 2001). Or to put it as clearly as the political rhetoric allows: the private agents are expected to be able to implement the measures in a better and cheaper way than the public system. In particular the fear that the unemployed are stuck in longer-lasting activation has played an

important part here. The private agents are presumed to be better at handling contact sessions, motivation and direct job provision, and, vice versa, at avoiding the longer-lasting initiatives directed at the long-term employability of the individual unemployed person. A particular feature of the Danish system is, however, that private agents in Denmark also include the institutions of the trade unions. This may change the picture as the trade unions today have approximately 25% of this market.

Yet another dimension of these changes is the fact that the local authorities (though only on a trial basis to start with) will take over the responsibility for the insured unemployed. They are today financed primarily by the state, but the system is administered by the trade unions (their unemployment funds), and this system functions as the main channel for recruitment for the trade unions. If the local authorities are to take over responsibility, they will have to be given a financial incentive to take over the financial responsibility as well. And it is hard to imagine that the local authorities will leave it to the trade unions to administer a system which they are ultimately financially responsible for. The debate about this issue is starting up, and several right-wing politicians have stated already that the next item on the agenda is a new joint benefit support system. If the trade unions lose the administration of the support system, it is bound to lead to a profound weakening of the trade union movement. In the longer term, this may in fact turn into the biggest threat to the existing very corporatist institutional set-up.

All in all, these significant changes in the institutional set-up may lead to a new policy being pursued, involving new types of balances. It may establish the preconditions for, and thus open up the opportunities for introducing more social disciplining and a more traditional work-first approach. The shift described above in this direction over the period from the late 1990s into the new millennium has already resulted in less influence for the labour market parties. Both in relation to “consultations” in connection with national political decision processes, but also in relation to the administrative corporatism, with diminished influence for the regional corporatist bodies (Larsen and Jørgensen 2002).

However, there is still some distance between the political intentions and their realisation,

and the reforms adopted have not yet been fully designed and implemented. The question now is how resistant the existing institutional corporatist system is to such attempts at changing it fundamentally. By all accounts, the traditional Danish institutional system is under attack. Perhaps as a result of deliberate strategic political considerations. Perhaps only as a by-product of copying elements (especially from the Netherlands), which were developed in a completely different context (and above all in a different welfare regime). What it does in any case is to underline the importance of focusing on the institutional set-up as well as policy design. It is an important recognition that these two are linked. The political struggle does not stop at the design of the policy. The struggle about the right to the role as “manager” is every bit as important - especially in relation to the implications for the design of the content of activation policy.

Conclusion

It was the ambition of this analysis to evaluate Danish labour market policy as an example of TLM and flexicurity arrangements, and to assess the general lessons, if any, to be learnt from the Danish example. While trying to uncover the conditions that acted as prerequisites for Denmark’s success, it has become clear that policy design is not the most important or influential element in the equation. Rather, it is the implementation of policy (along with the existence of a public arena for social dialogue about labour market measures) that acted as the crucial linchpin. A close examination of Danish labour market policy appears to justify this conclusion. It is of vital importance that the corporatist structure described above (with its tradition for tripartite consultation in policy formulation and active participation implementation) keeps the channels for social dialogue between the parties open. This results in a unique situation in Denmark in which previous compromises to balance supply and demand are carried forward to new policies, so that the demands for efficiency and tightening-up are balanced with the needs and interests of employees.

The Danish version of workfare has thus become based on a welfare-state integration line of thinking, which includes welfare considerations alongside the efficiency requirements

of market processes. Because of this, measures focusing on upgrading and need-orientation have been experimented with – in particular in the early years of reform when skills-upgrading together with a kick-start of the economy were supposed to solve the alleged structural problems of the labour market. In other words, there is a marked path dependency in Danish political and administrative development during that period. Economic and welfare considerations are balanced within the corporatist framework.

The labour market reform of 1994 in many ways marks an independent Danish active-line giving international trends towards more workfare and disciplining elements a particular Danish twist. The social integration strategy, emphasising upgrading as well as the prior qualifications and needs of the individual unemployed person, thus make up the decisive new and central element of Denmark's labour market policy. The new stress on need-oriented measures is also accompanied by changes on the steering side. Contrary to international trends, there is a strong regionalisation and at the same time a strengthening of (especially regional) corporatist structures. In other words, Denmark chooses its own course.

A close inspection of policy steering and content reveals that labour market policy has been changing in recent years. In regards to steering, the consultative role of the parties has been diminishing, and there are clear signs of "roll-back" tendencies that spur on revitalisation of administrative corporatism initially introduced by the labour market reform of 1994. As for content, the active-line has been under constant change throughout the 1990s. Generally speaking, the disciplining element of the policy has been growing ever stronger at the expense of the social integration strategy. Additionally, economic concerns seem to be gaining a more prominent position at the expense of welfare considerations towards the end of the 1990s. These changes can be explained by perpetually shifting problems in the labour market; predictable problems with the supply of labour coincide with a progressively weaker reserve pool of the unemployed, who are considerably harder to integrate into the labour market. That it may be possible to explain de-corporatism – and politicians recapturing power – based on the weakness of corporatism in relation to certain groups will not be dealt with here. However, if those

issues are to be addressed in a meaningful way in future research, other trends such as the inspirational role-played by dominant, neo-liberal work-first strategies must be considered.

These issues aside, the conditions imposed by the institutional framework seem to secure (within a relatively broad margin) a certain balance between economic and welfare considerations. There are simply clear limits on how far this balancing can be skewed. The “benefit blunder” discussed earlier in this work, and to some extent the attempts to give lower priority to training and education of the unemployed (which, by the way is being severely criticised in the Danish papers), are clear examples of this.

However, the fact that this particular balance of economic and welfare considerations in Danish policy seem not to be a result of any special fundamental “program theory” or policy design, but rather are linked to institutional setting changes, makes policy transfer much more difficult. Perhaps it is more a question of influencing the institutionalisation of social dialogue between the actors in the labour market if TLM and flexicurity arrangements successfully are going to be integrated into the labour market policies of individual European countries.

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