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***Danish labour market policy:
An eroding success?***

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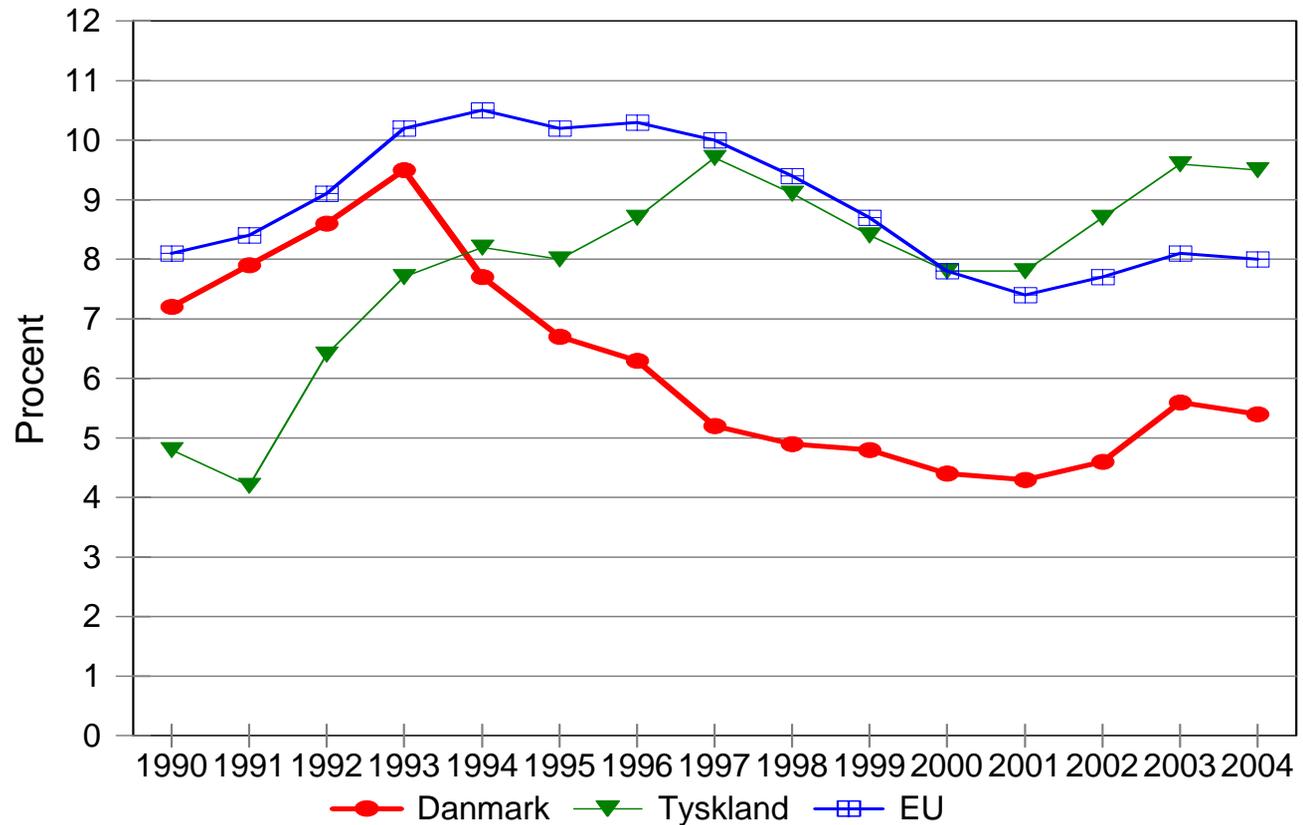
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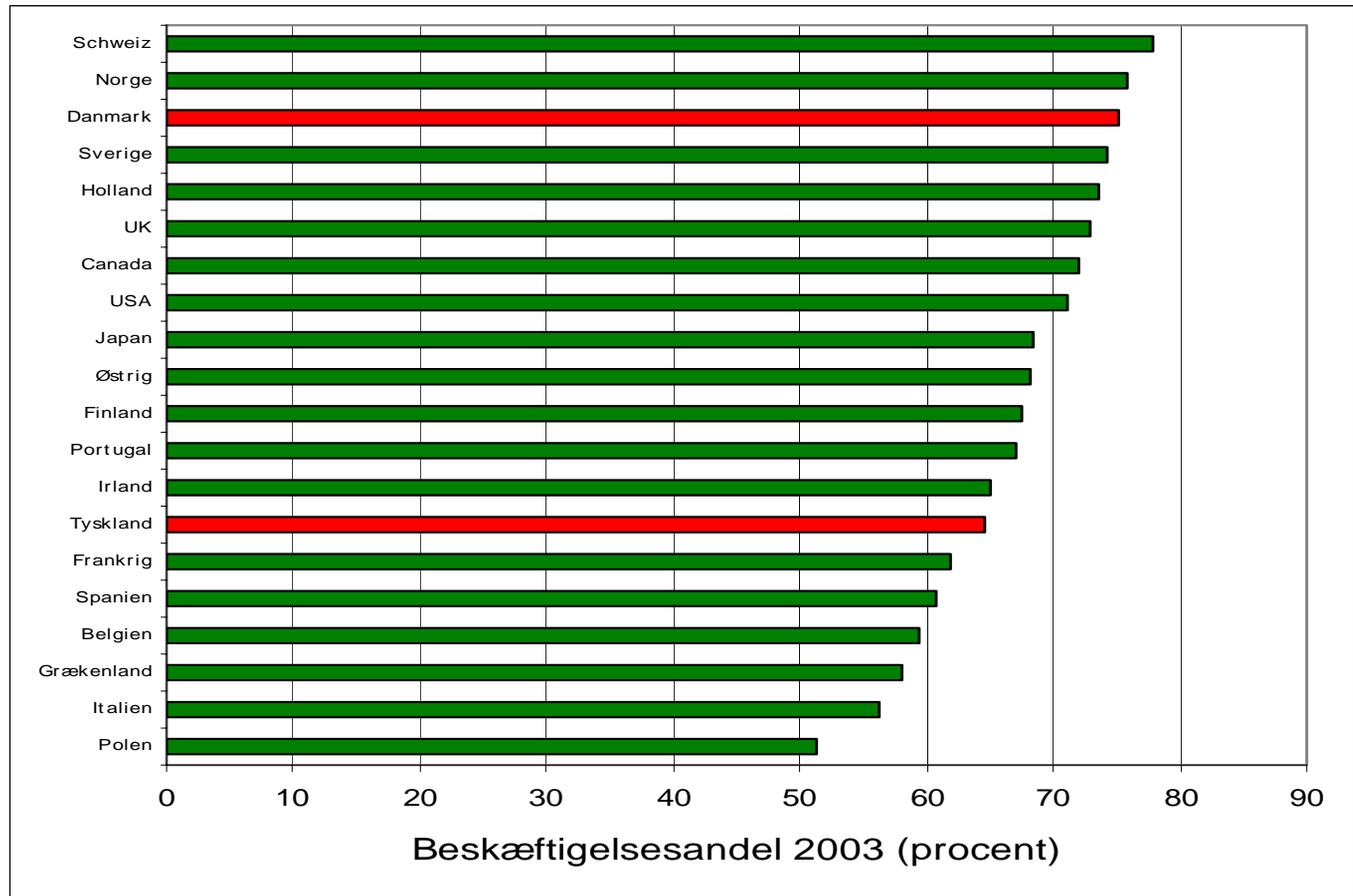
Declining unemployment...

Arbejdsløshed



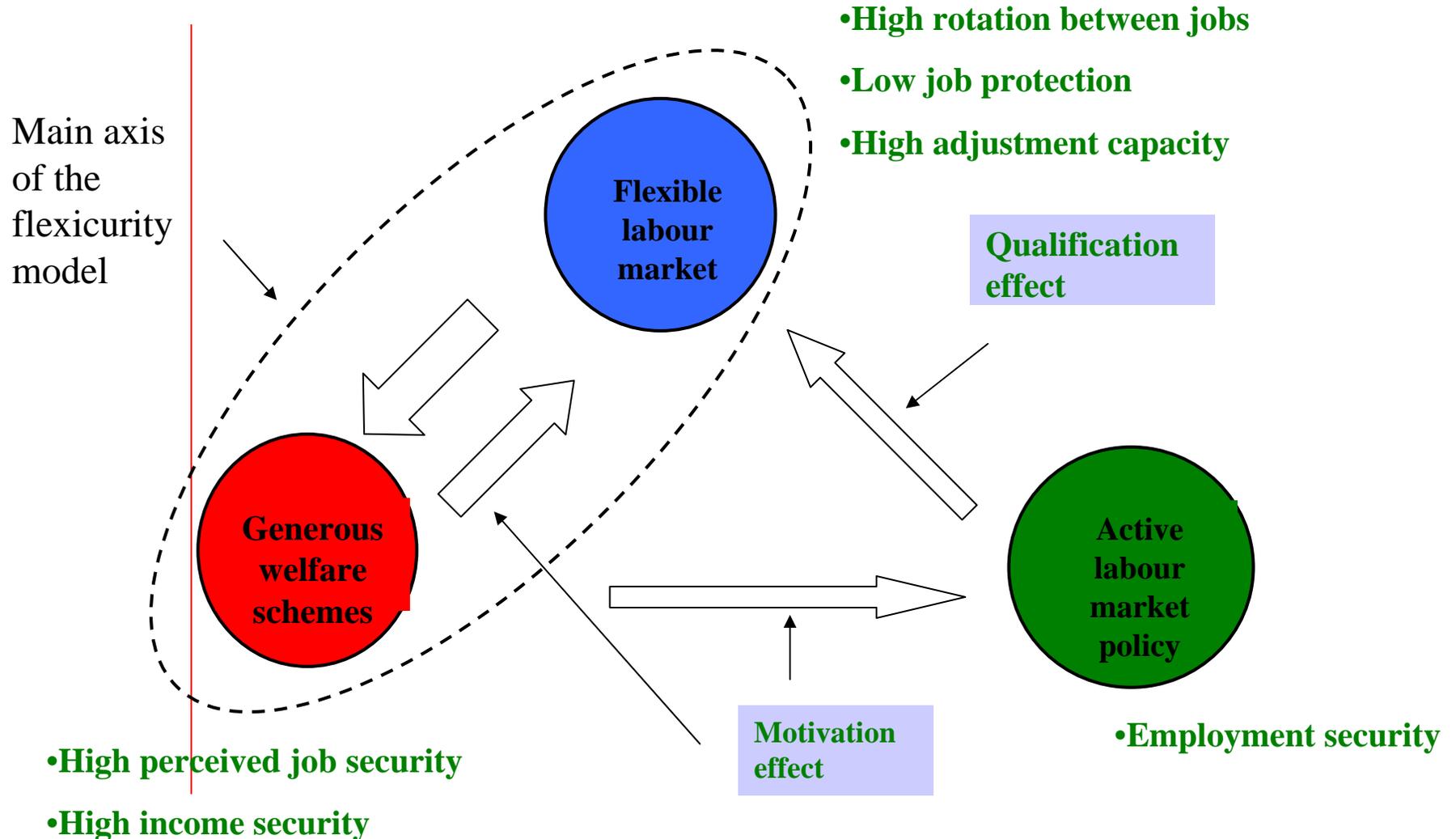


...and high employment rates





The Danish flexicurity triangle





...even praised by the OECD

The Danish *flexicurity* approach

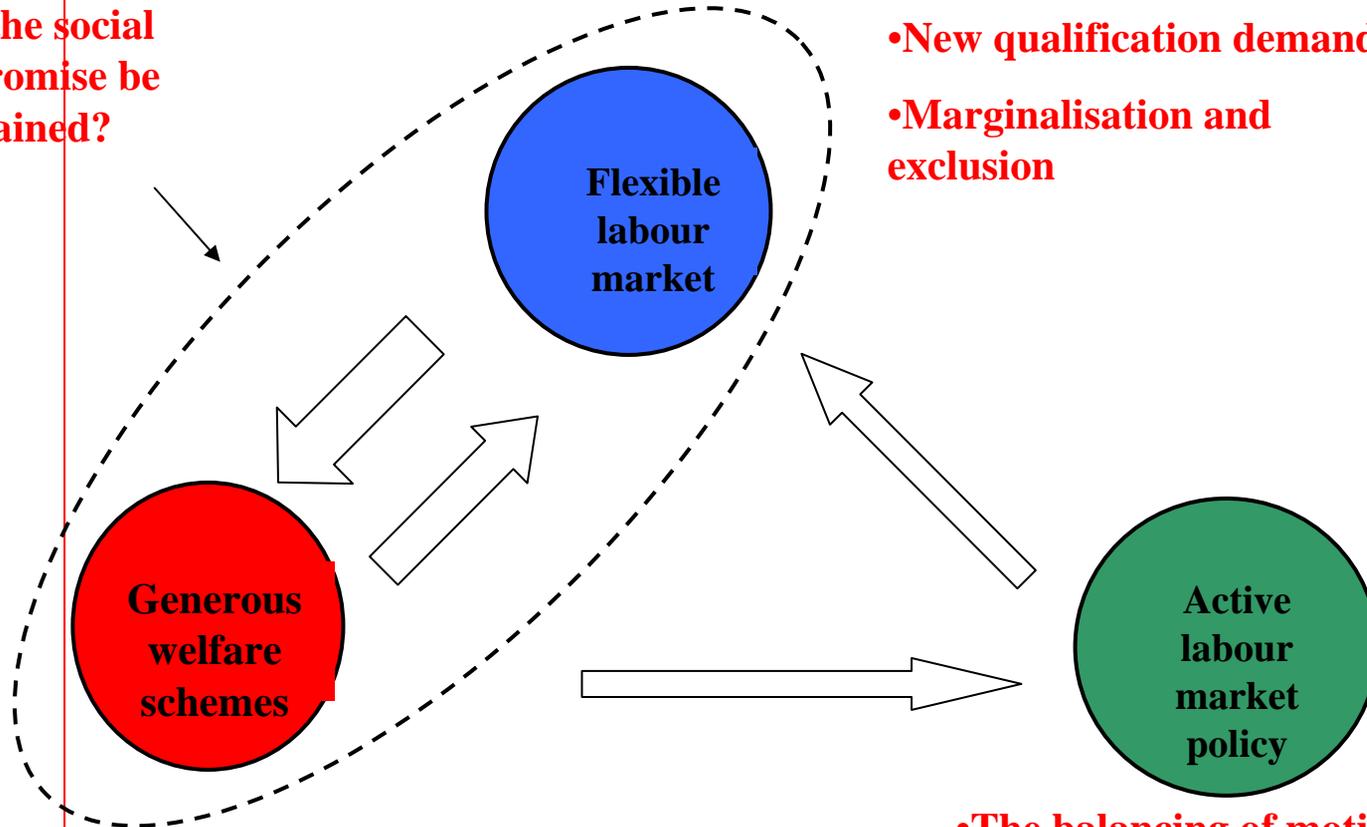
Denmark provides an interesting combination of high labour market dynamism and relatively high social protection – the so-called *flexicurity* approach. Underlying the success of the Danish model is the combination of *flexibility* (a high degree of job mobility thanks to low EPL), *social security* (a generous system of unemployment benefits) and *active labour market programmes*. The Danish model of *flexicurity* thus points to a third way between the flexibility often attributed to deregulated Anglo-Saxon countries and strict job protection characterising southern European countries.

Source: OECD "Employment outlook", 2004.



...but...

•Can the social compromise be maintained?



•Globalisation

•New qualification demands

•Marginalisation and exclusion

•Making work pay?

•Sustainability of the welfare state?

•The balancing of motivation and qualification effects

•Can labour market policy survive recent changes?



Danish labour market policy at a crossroad

2002 Labour Market Reform: “More people into employment”

- Main objective: Increase effective labour supply
 - **Benefit reform:** Make work pay
 - **Activation reform:** Work first
 - **Steering reform:** Municipalisation and marketisation
- Spring 2004 package



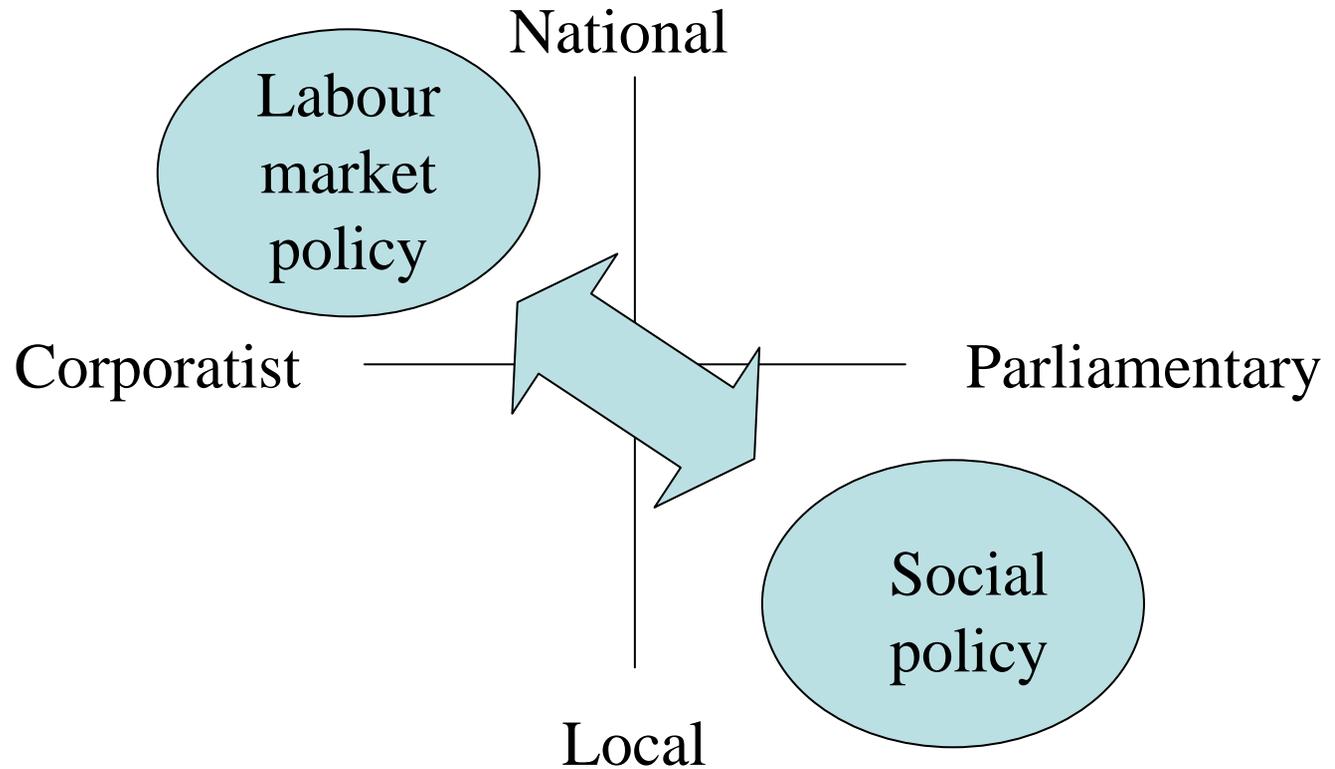
Three basic labour market policy strategies

	Active-line		Passive-line
	<i>Social disciplining</i>	<i>Social integration</i>	<i>Social Security</i>
<i>Problem</i>	Inadequate incentives to take and seek jobs	Inadequate competencies and qualifications to achieve a job	Inadequate income
<i>Instruments</i>	Work obligations and demands	Need-oriented (re)qualification and activation	Welfare benefits
<i>Incentives for behavioural change</i>	Extrinsic motivation (sanctions)	Intrinsic motivation (help-to-self-help)	None
<i>Rights and obligations</i>	Conditional (work obligation) "Something-for-something"	Conditional (employability) "Something-for-something"	Unconditional (no work or employability requirements) "Something-for-nothing"
<i>Partial objective</i>	Work first	Human and social capital	Improve life quality
<i>Final objective</i>	Self-sufficiency		Social security and equality

Source:
Bredgaard et
al 2003



Challenge # 1: The 'one-stringed' employment system





Municipal weaknesses...

- **In-transparent:** Labour market policy fenced in behind municipal borders and local government autonomy
- Insufficient acknowledgement of **functional objectives** in national labour market policy
- Discretion leading to **arbitrariness** and too many different labour market policies; documentation and analysis necessary – not only rely on ‘best practice’
- Insufficient involvement of the **social partners** to secure legitimacy, knowledge and implementation

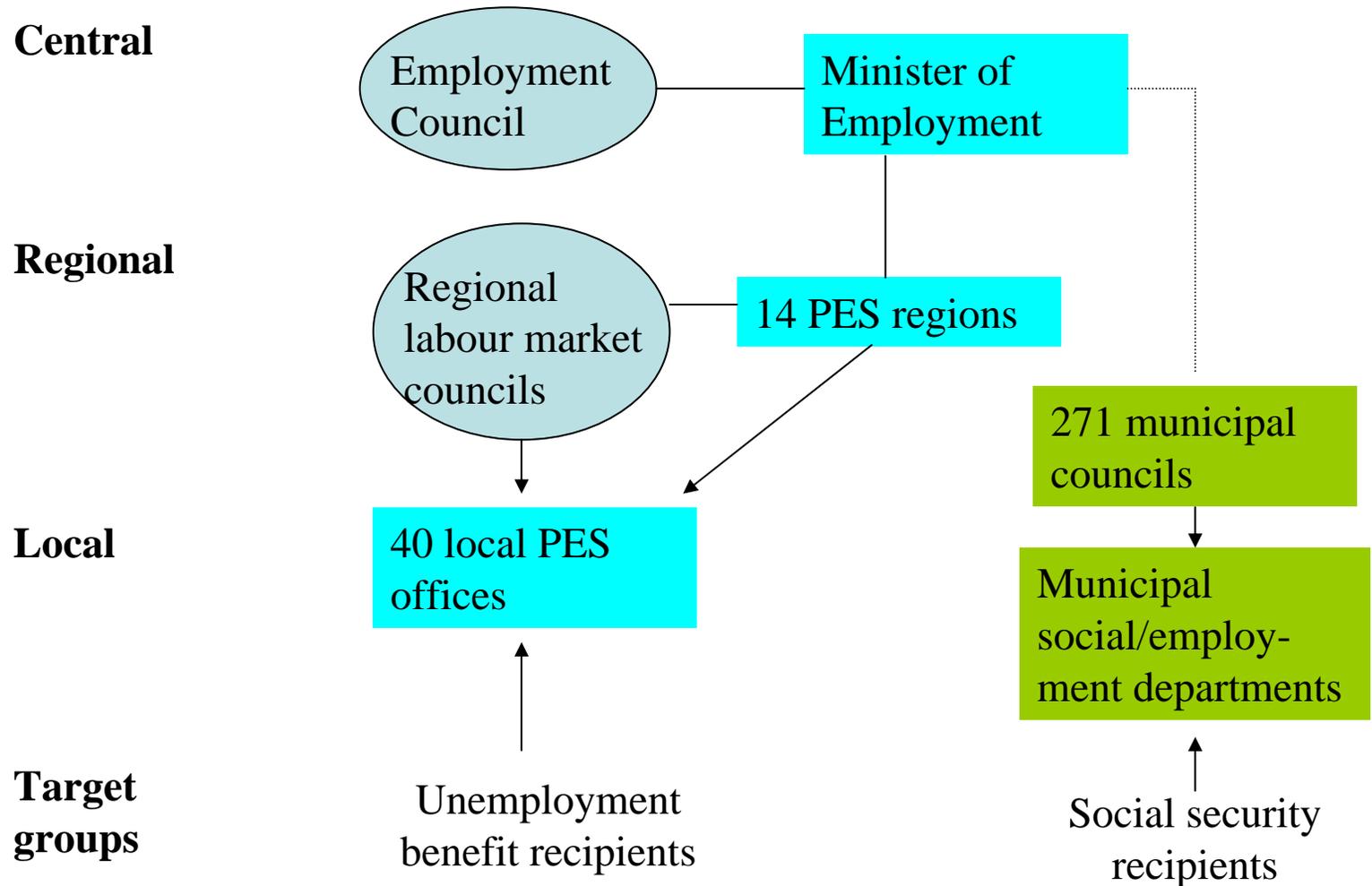


Weaknesses of the PES-system...

- Excessive vertical (top-down) steering (management by numbers)
- Insufficient acknowledgement of the potentials of decentralised network steering
- The social partners do not trust the municipalities

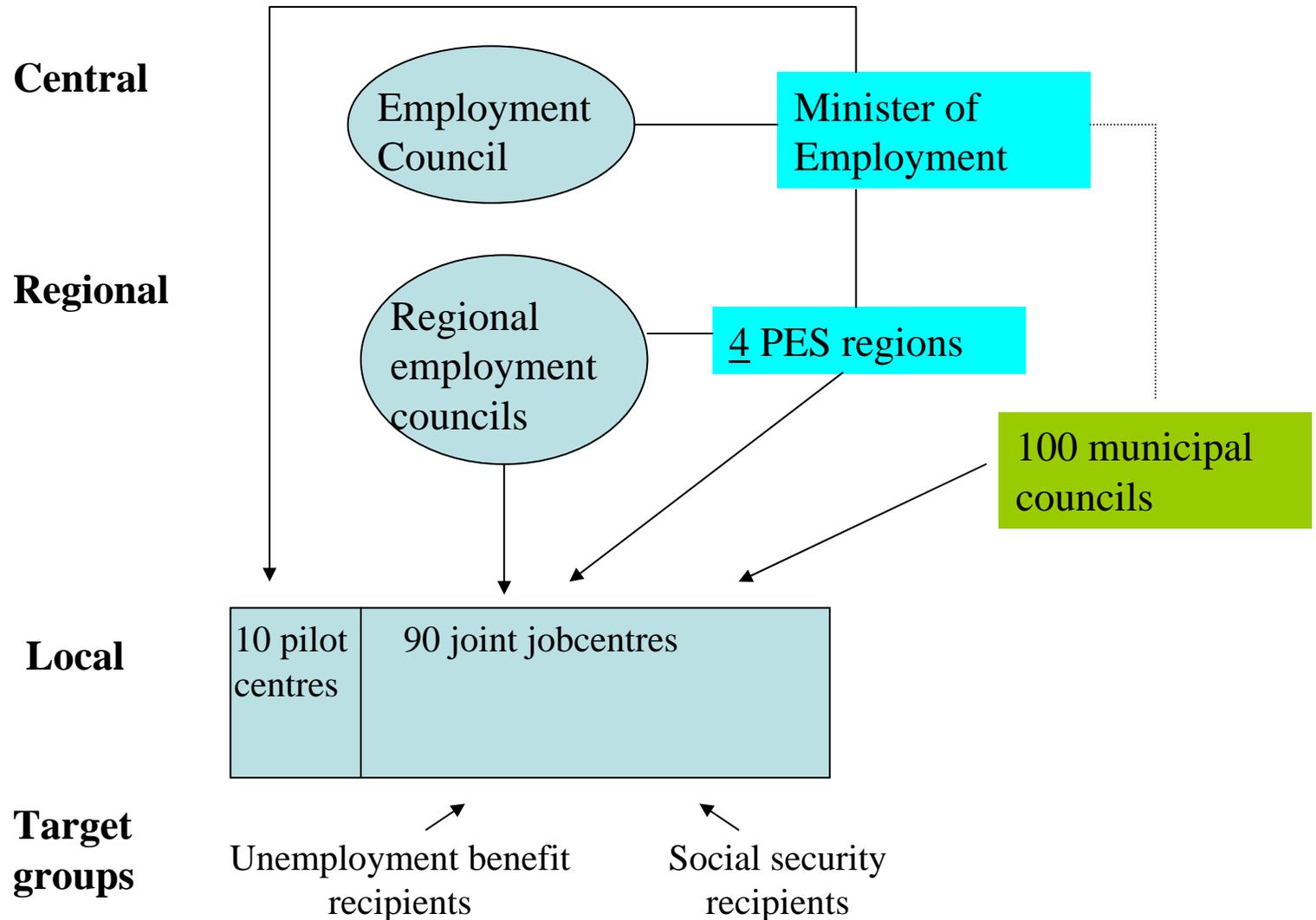


The current steering system





The ('one-stringed') steering system from 2007...





Challenge # 2: Contracting out the PES

Danish quasi-market for employment services: Implemented since 1/1-2003

- Political process: Not privatisation or contracting out but “involvement of other actors in LMP”
- All previous quantitative and qualitative restrictions have been abolished: E.g. on duration, target-groups, prices, types of activity
- Market: Since monopolistic public services are exchanged by competitive and independent service providers
- Quasi: Since its not a conventional market: (1) Not all providers are for-profit (e.g. labour unions or educational institutions), (2) Public demand for services, (3) Freedom of choice is not necessarily with the user
- Paradox: A (new) competitive market requires substantial public regulation!



Why...(oh why)?

- Political assumption: A (market)economic rationale (NPM)
- Welfare policy consideration are limited: Effectiveness rather than equity and ideology rather than rationality



Market structure

- First tendering round (spring 2003):
 - Purchaser: Regional labour market councils
 - Surpassed political minimum requirement (10%): 23% of PES unemployed referred to “other actors” (30% in spring 2004)
 - Subsequently: Binding contacts in regions and municipalities
- National tendering for unemployed with long-level education
- After 2007, regional employment councils can impose contracting-out on (non-performing) local jobcenters and municipalities



Results of first national evaluation (autumn 2004)

	Resource strategy (relieve and flexibility)	Competence strategy (innovation/specialisation)
Target group definitions	Broad	Narrow
Activities	Simple	Complex
Duration	Short	Long
Intensity of activities	Low	High
Payment models	Minimise costs/payment by running costs	Maximise effect/payment by bonus
Preconditions	Provider can handle high quantities and flexibility	Specialised competencies exist
Type of cooperation	Control; competition	Development; partnerships



Results of the first national evaluation (cont.)

- Conceptual confusion
- Limited experiences in municipalities
- Competition between PES/municipalities and “other actors”



Results of the first national evaluation (cont.)

- Information
- High transaction costs
- Participation satisfaction
- Supply side orientation
- Same methods
- Not a “new” market, but a (substantial) extension of an existing market



Payment models

Commencement fee ----- Outcome fee
differentiated models

weak	Economic incentives	Strong
Input and processes	Steering mode	Measurable output (placements)
Can include long-term effects	Orientation	Short-term effects
Purchasers (avoid creaming)	Risks	Providers (creates creaming)
Easy access for small niche players	Market structure	Big players market



Employment effects

Average financial independence 26 weeks after activity start

	Other actors	PES
3. Quarter 2003	0.31 (8 weeks)	0.28 (7 weeks)
2. Quarter 2004	0.55 (15 weeks)	0.41 (11 weeks)



Action plan of the Minister of Employment (July 5 2005): 7 principles

Principle	Initiatives
"Make a difference"	<ul style="list-style-type: none">•No contracting out of contact periods
"Respect the unemployed"	<ul style="list-style-type: none">•Contracts must specify requirements for quality and treatment of unemployed•Opportunities for appeal improved
"Minimise bureaucracy"	<ul style="list-style-type: none">•Only one payment model•Precise definitions of target groups•Standardised tenders
"Work together"	<ul style="list-style-type: none">•More meetings...
"Measure effects"	<ul style="list-style-type: none">•All providers will be measured and compared, and results publicise
"Reward the best"	<ul style="list-style-type: none">•Higher outcome bonuses; 70-80%
"Free choice"	<ul style="list-style-type: none">•Greater volume to secure choice between different providers



Conclusions

Pathdependency:

- The danish employment system is decentralised (regionalised/municipalised) with a strong tradition for corporatist involvement
- The resilience of the existing system

Pathbreak:

- A irreversible reform: PES competencies are lost
- Activation offers substantially reduced, when we need them the most
- Steering by economic incentives? From long-term to short-term considerations?
- Is the flexicurity model undermined?