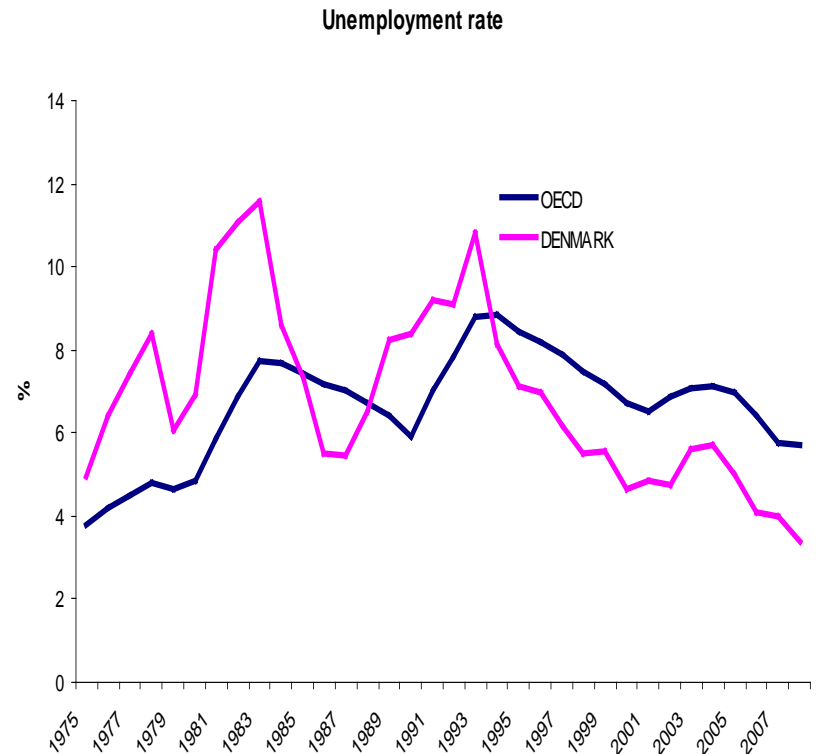


Flexicurity – The Danish Case

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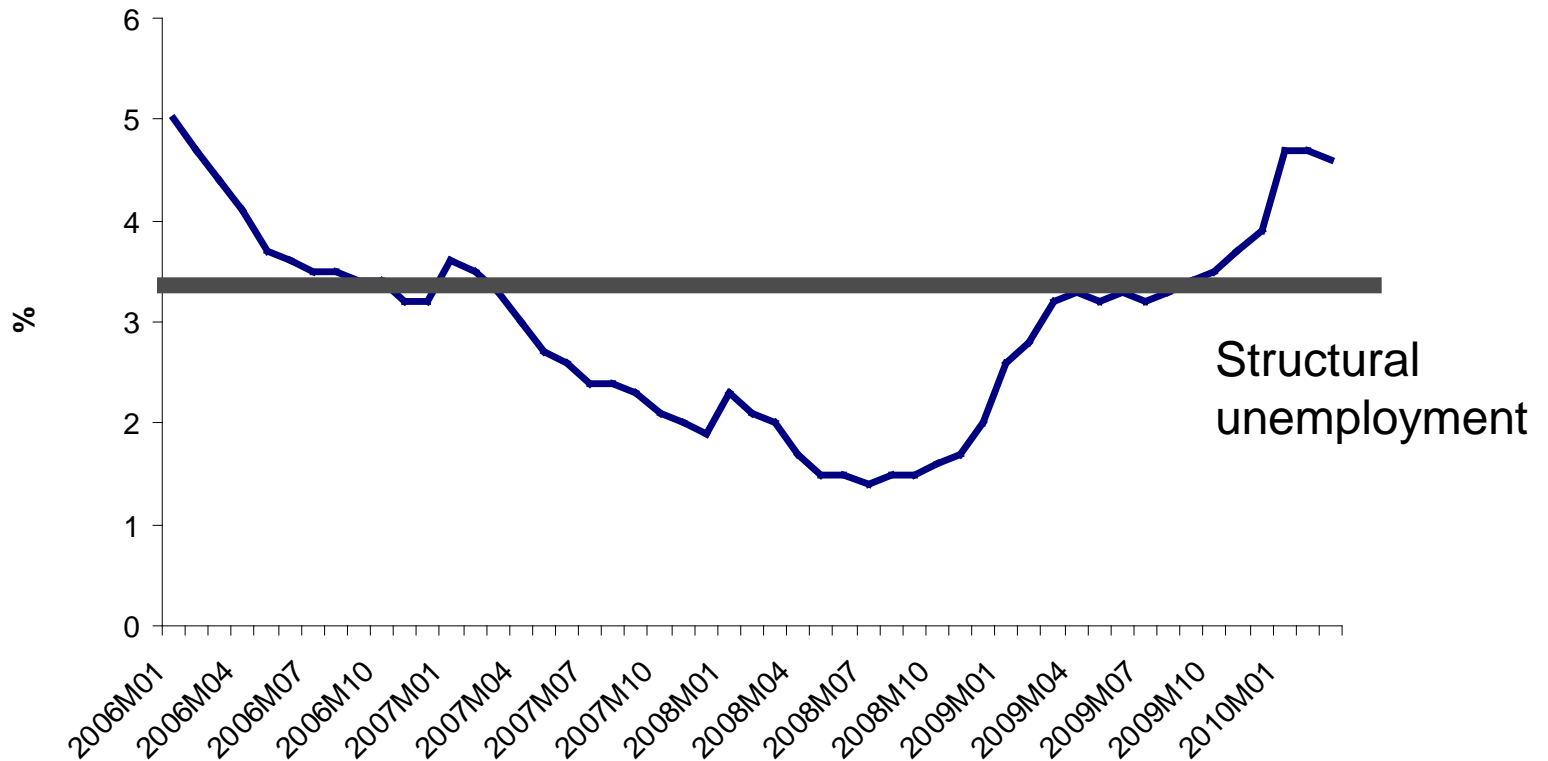
Danish Characteristics

- Low unemployment rate
- High labour force participation
- Low working hours



Unemployment and the crisis

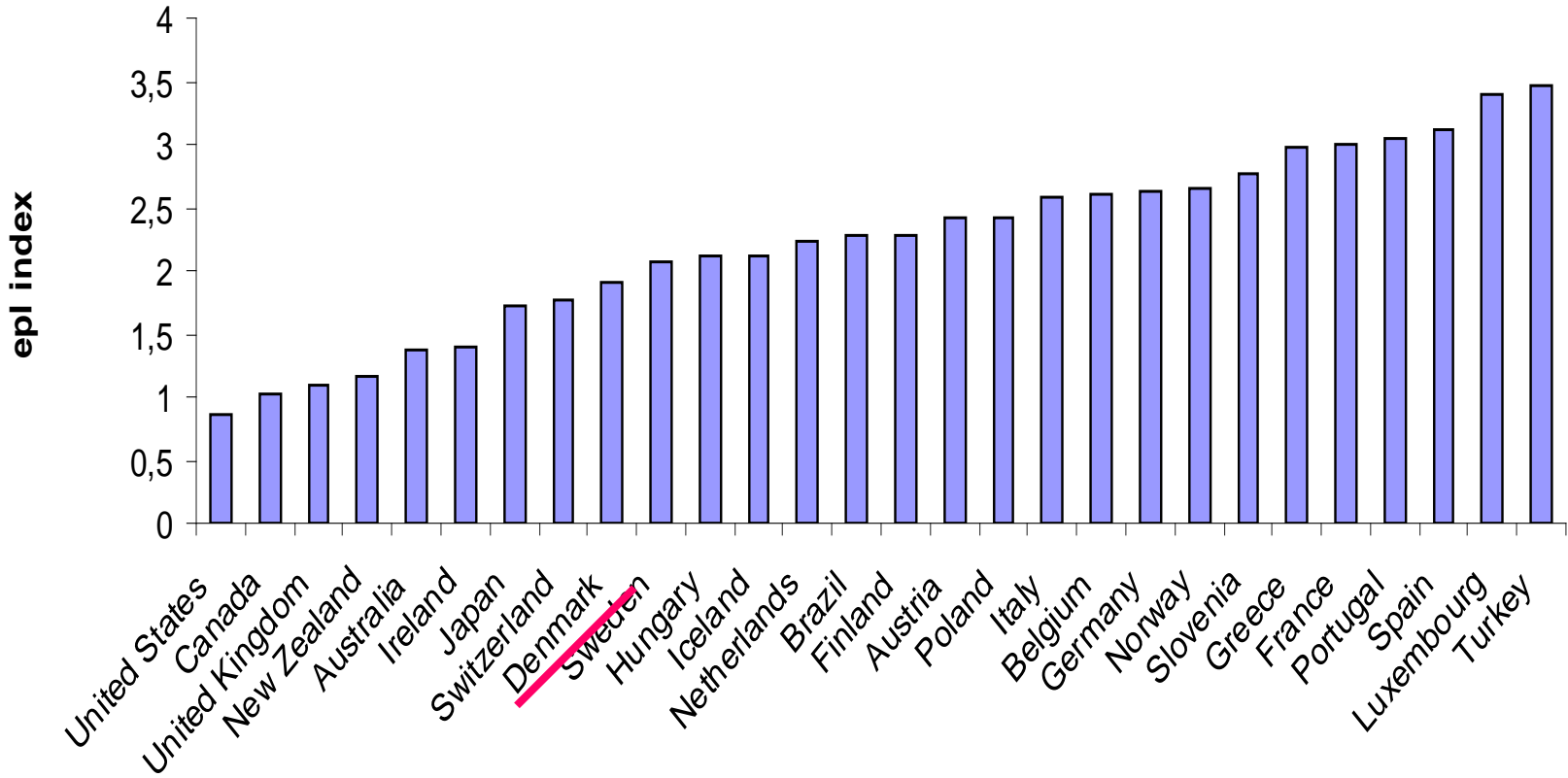
Registered unemployment



Flexicurity

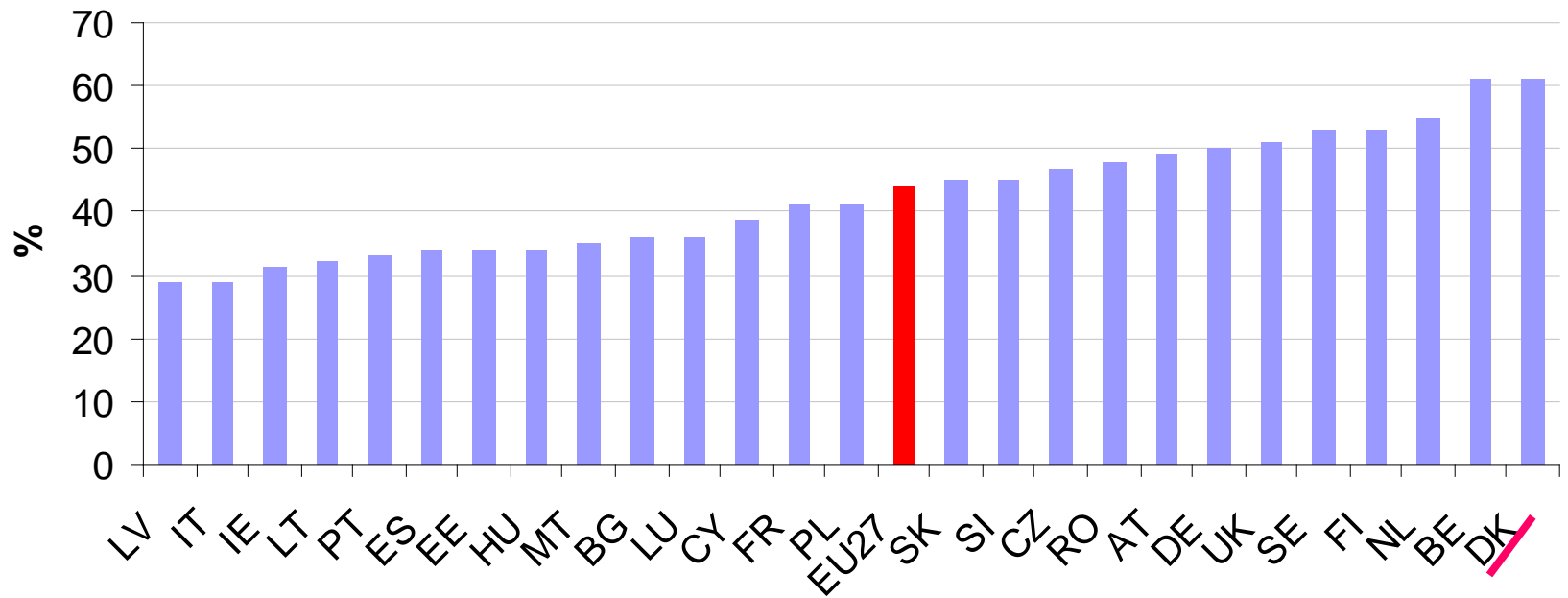
- **Flexible** hiring and firing rules for employers combined with social **security** for employees: **flexicurity**
- Conducive for job-creation and restructuring etc.
- Collective risk sharing for workers

Employment protection - index



Strong perceived job security

Perceived likelihood of respondents being able to find a job
(after being laid off)

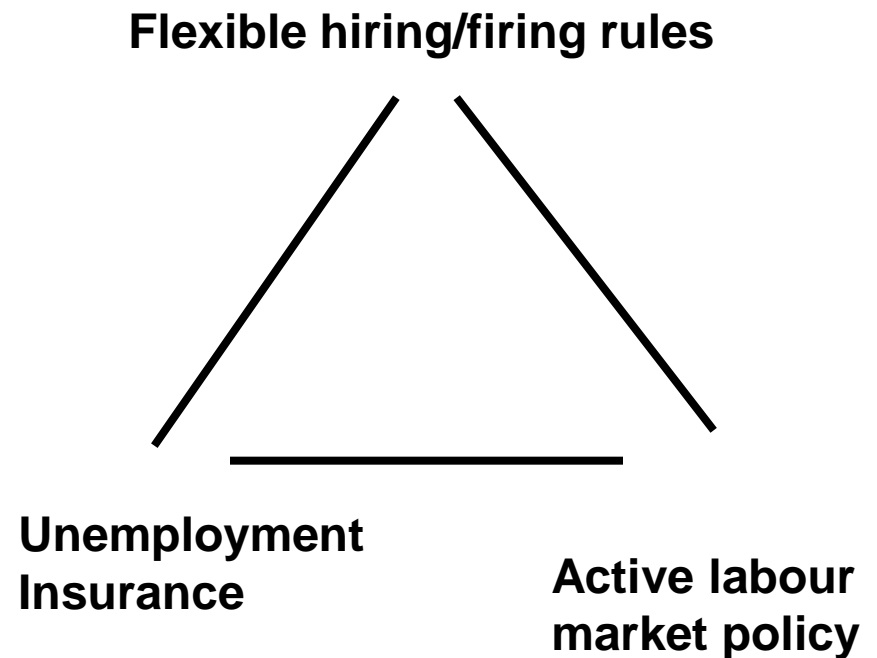


Some facts about the Danish case:

- Flexicurity was also in place in the high unemployment period in the 1970s and 1980s
- A series of supply side reforms in the 1990s made the model work better
- Unemployment benefits are only generous for low income groups
- Incentive structure is maintained via active labour market policy

The three pillars of the Flexicurity-model

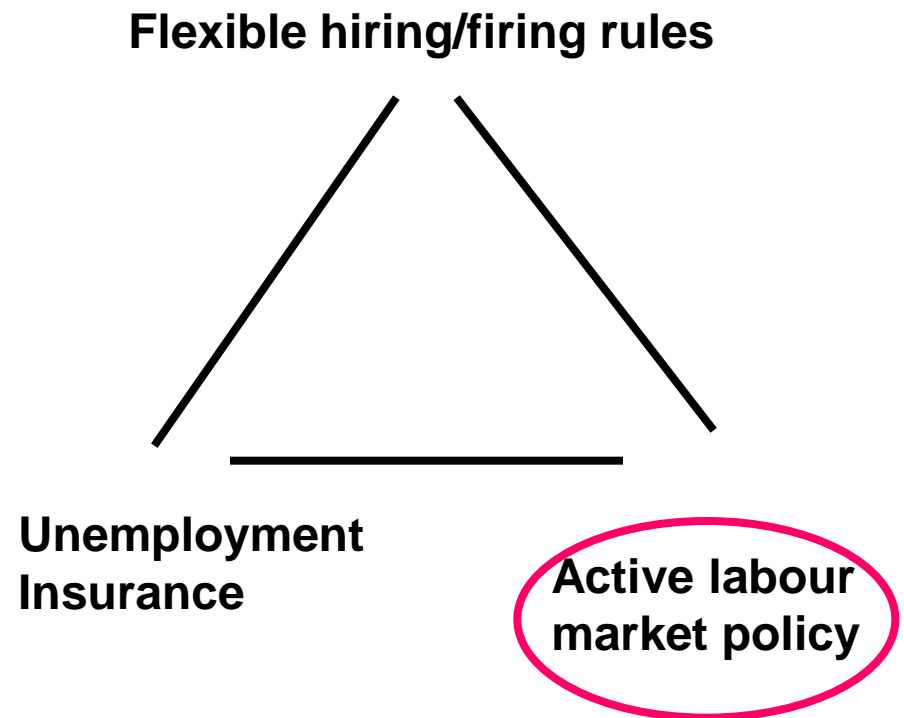
- Insurance vs. incentives
- The model presumes that unemployment is a temporary state
- Balance between the three pillars is essential



Labour market reforms in the mid 1990s

- Shorter duration of the benefit period
- Stricter eligibility conditions
- Activation (workfare)

Short term insurance maintained, but incentives strengthened



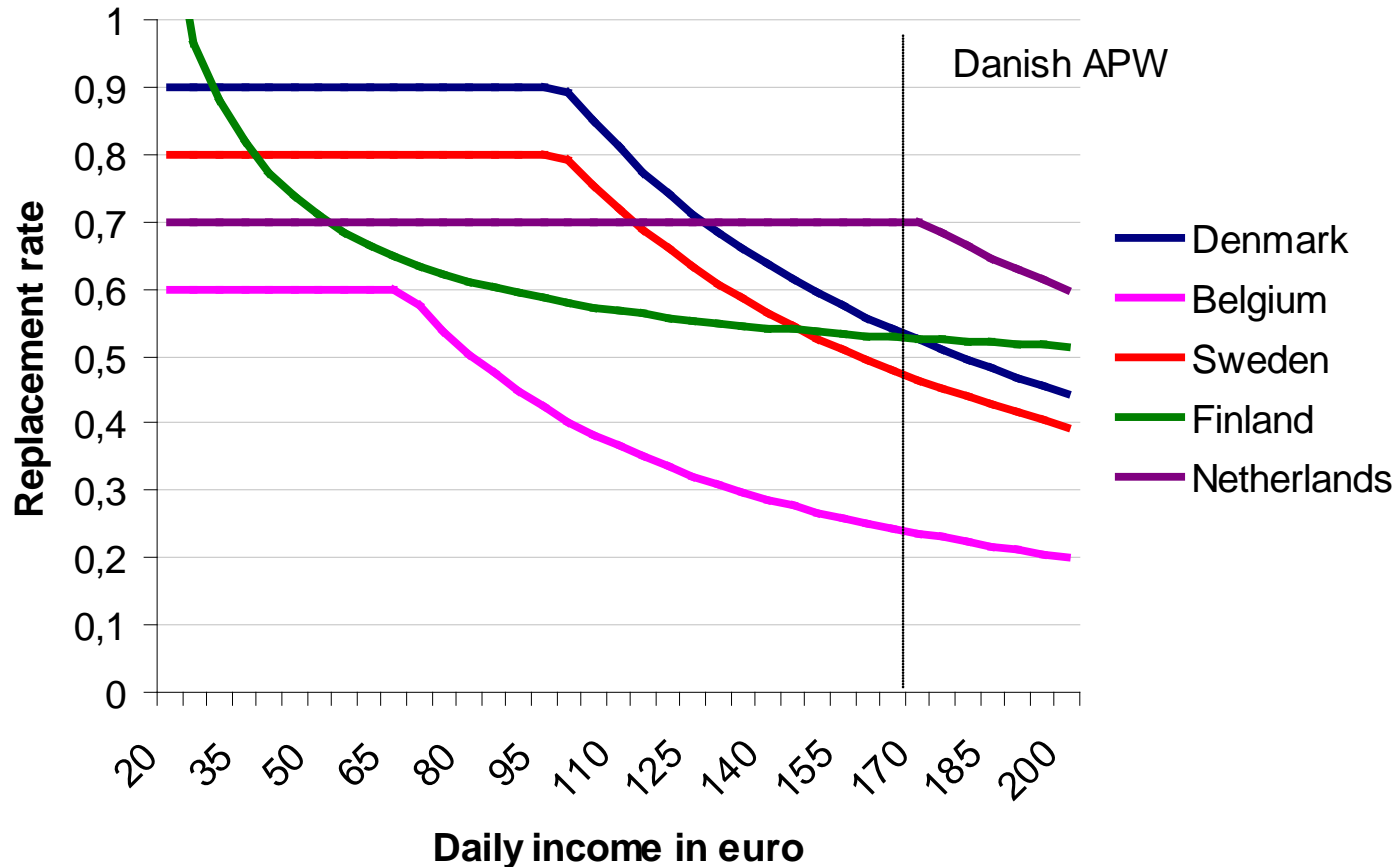
Youth package

For all below 25 years of age:

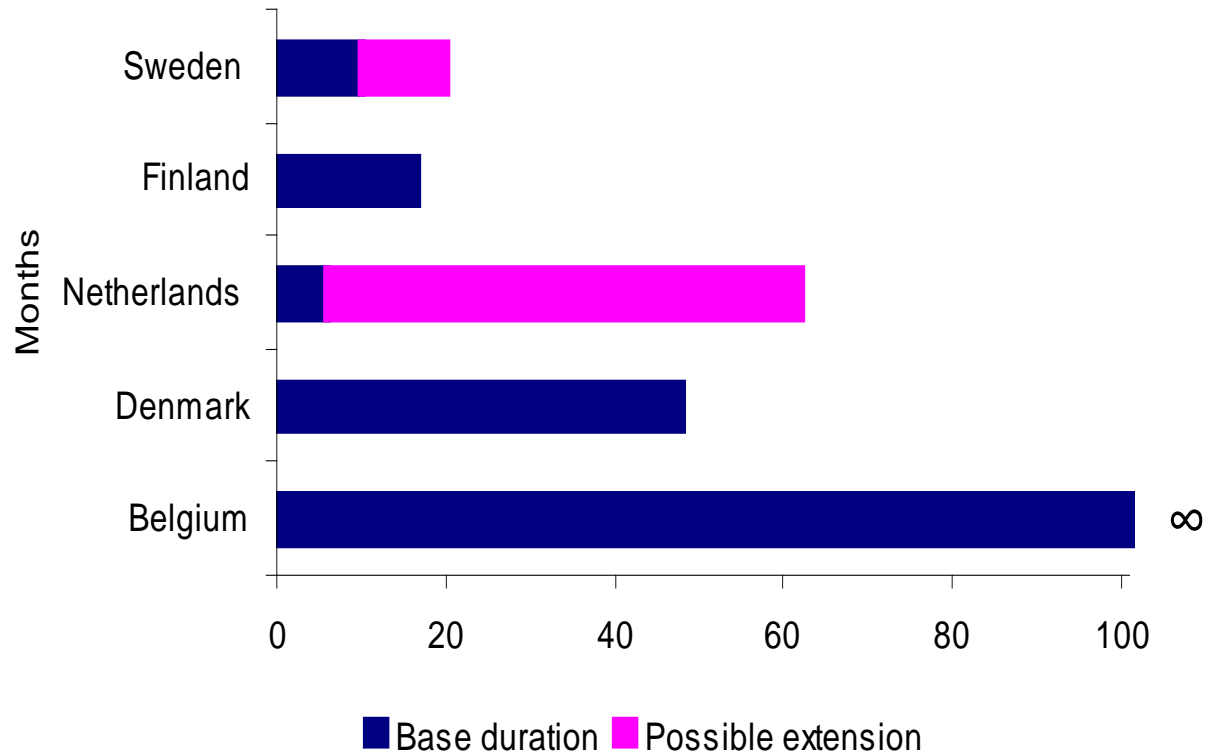
- Benefit period – maximum 6 months, either
 - Job
 - Education
 - Reduced benefits (approx. 50 %)

Are unemployment benefits that generous in Denmark?

Replacement rates



Duration of benefit periods



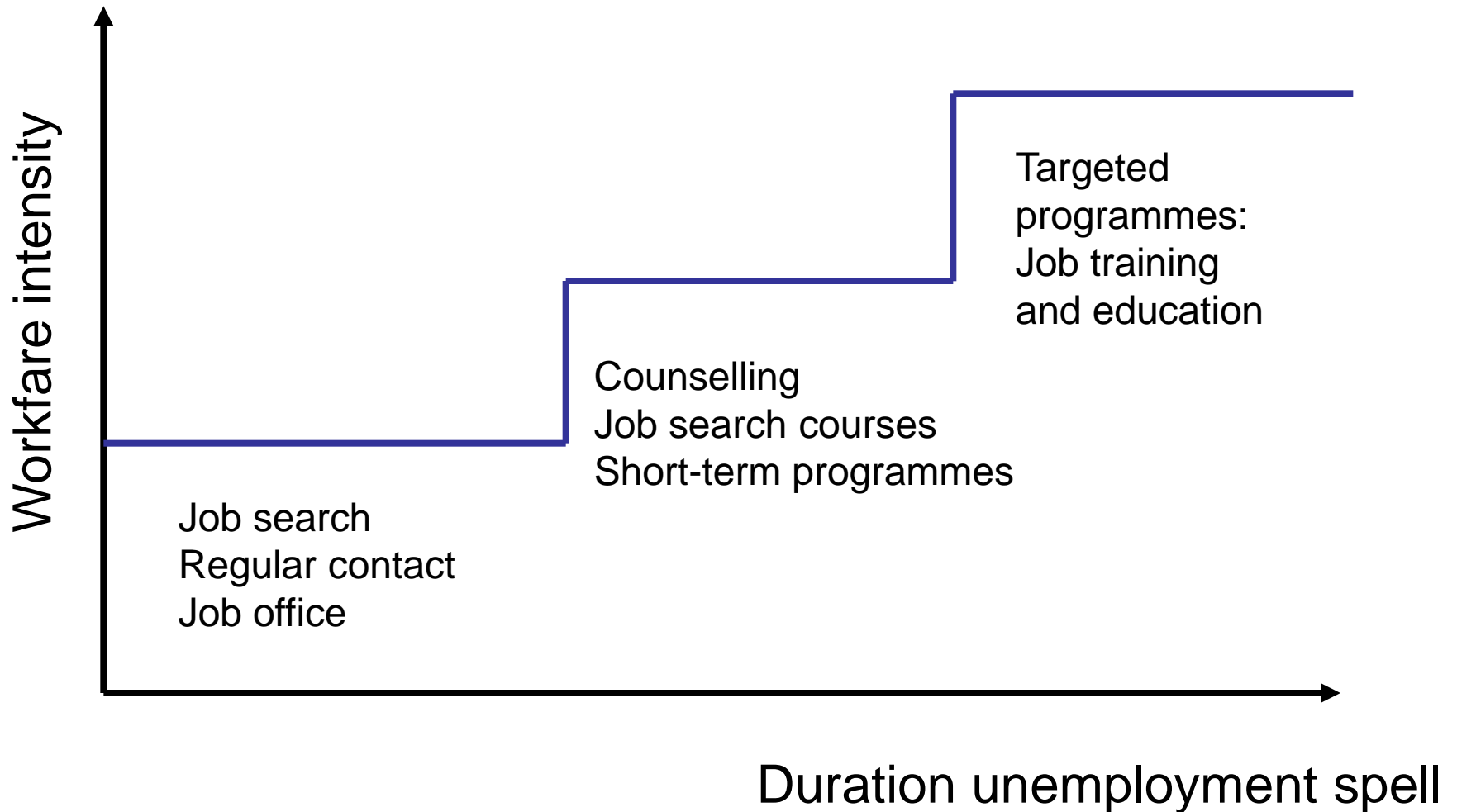
Incentives and distributional constraints

- Lower benefits: distributional constraint
- Activation: unchanged benefits but strengthened incentives
- Rights and duties
- Better incentives for binding distributional constraint?

Effects of activation

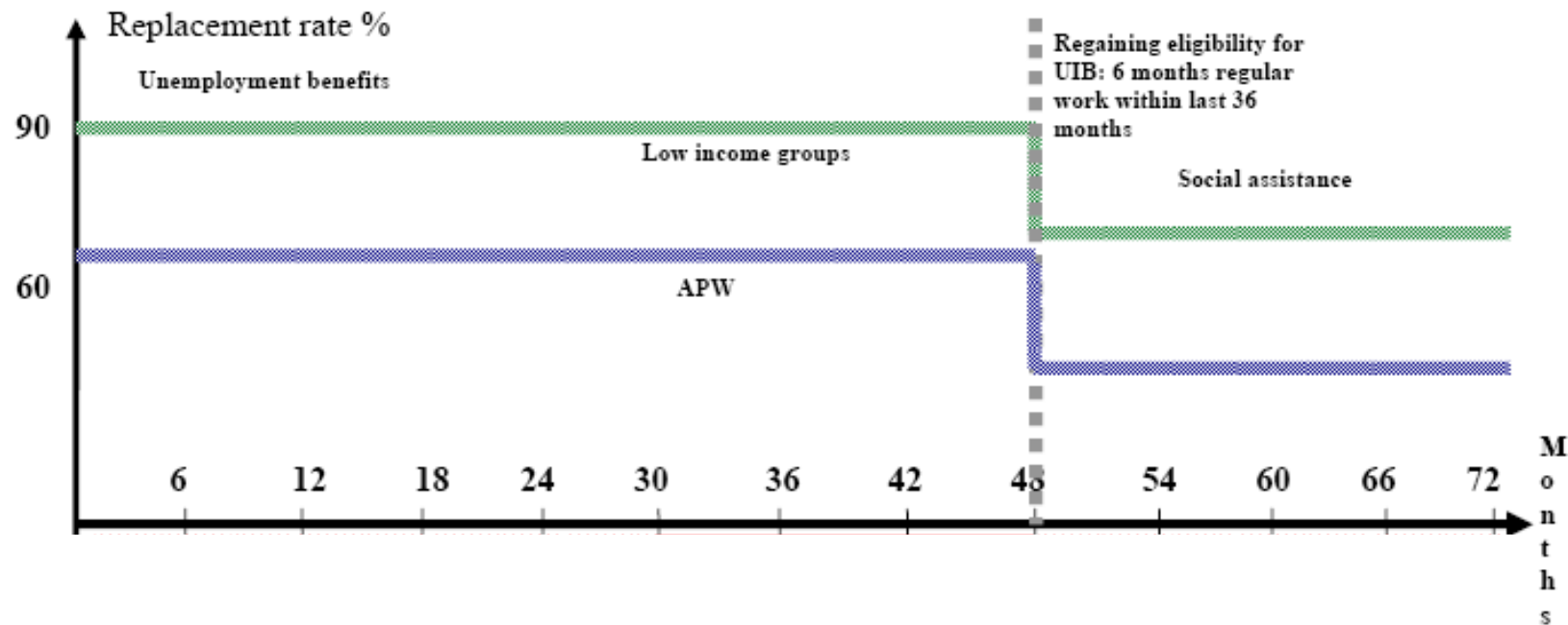
- Ex ante
 - Threat/motivation effect: higher opportunity costs of claiming uib = more job search, lower reservation demands
 - Sorting (claiming benefits, but not interested in jobs)
- Locking-in effect – less search during participation
- Ex post:
 - Improved qualifications
 - More realistic/efficient job search

ALMP – stepping up



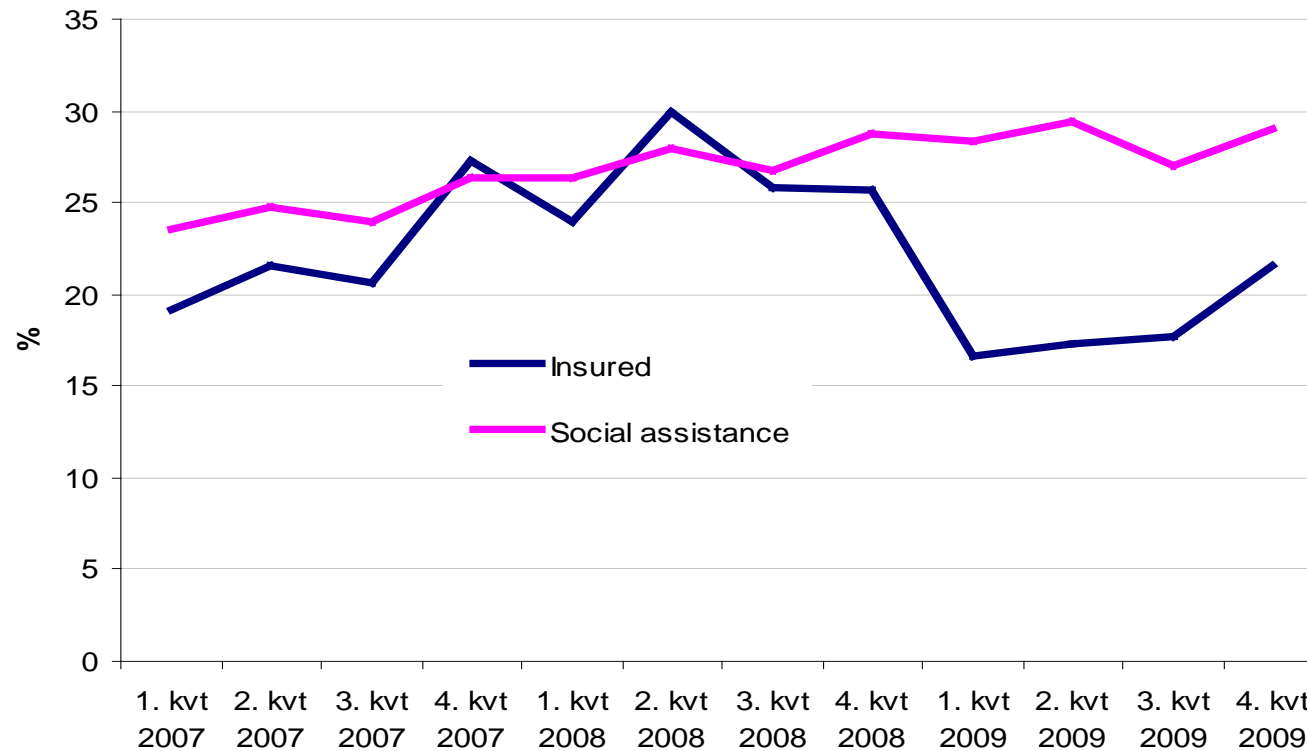
Benefits and activation requirements:

Danish social safety net in case of unemployment



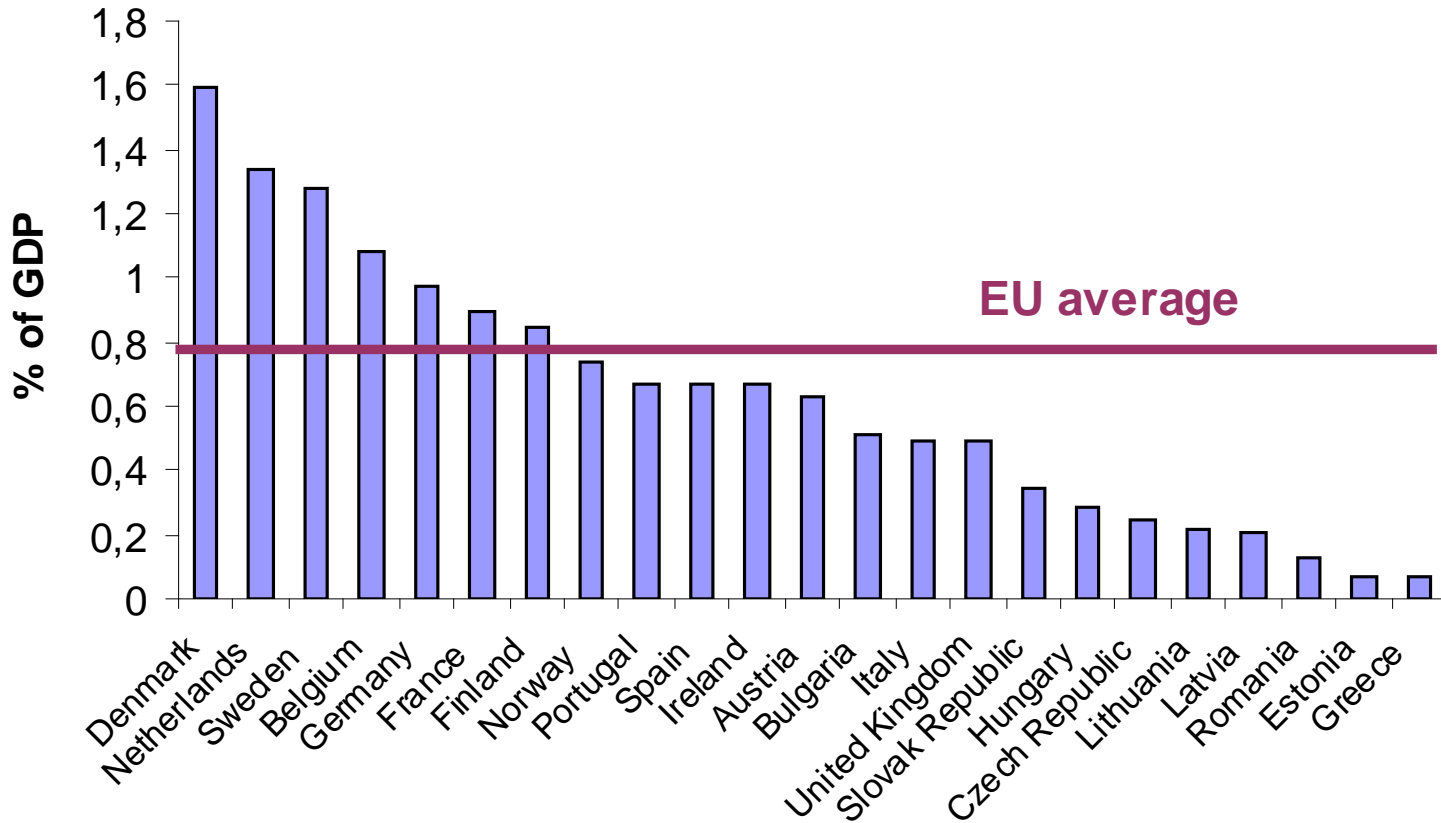
High level of activation

Share of unemployed in activation



Policy regime comes at a cost!

Expenditures on ALMP as a share of GDP



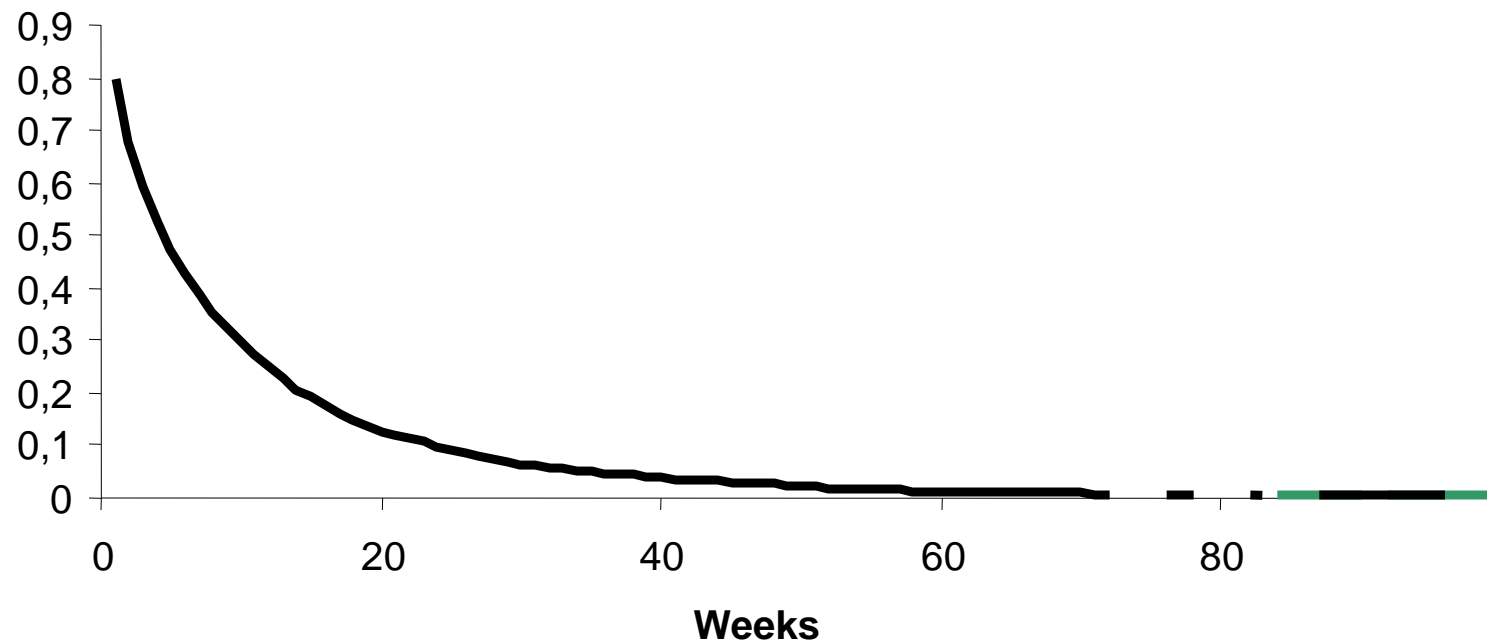
Some characteristics of the Danish labour market

- High job-turnover
- Short average job tenure
- High incidence of short term unemployment



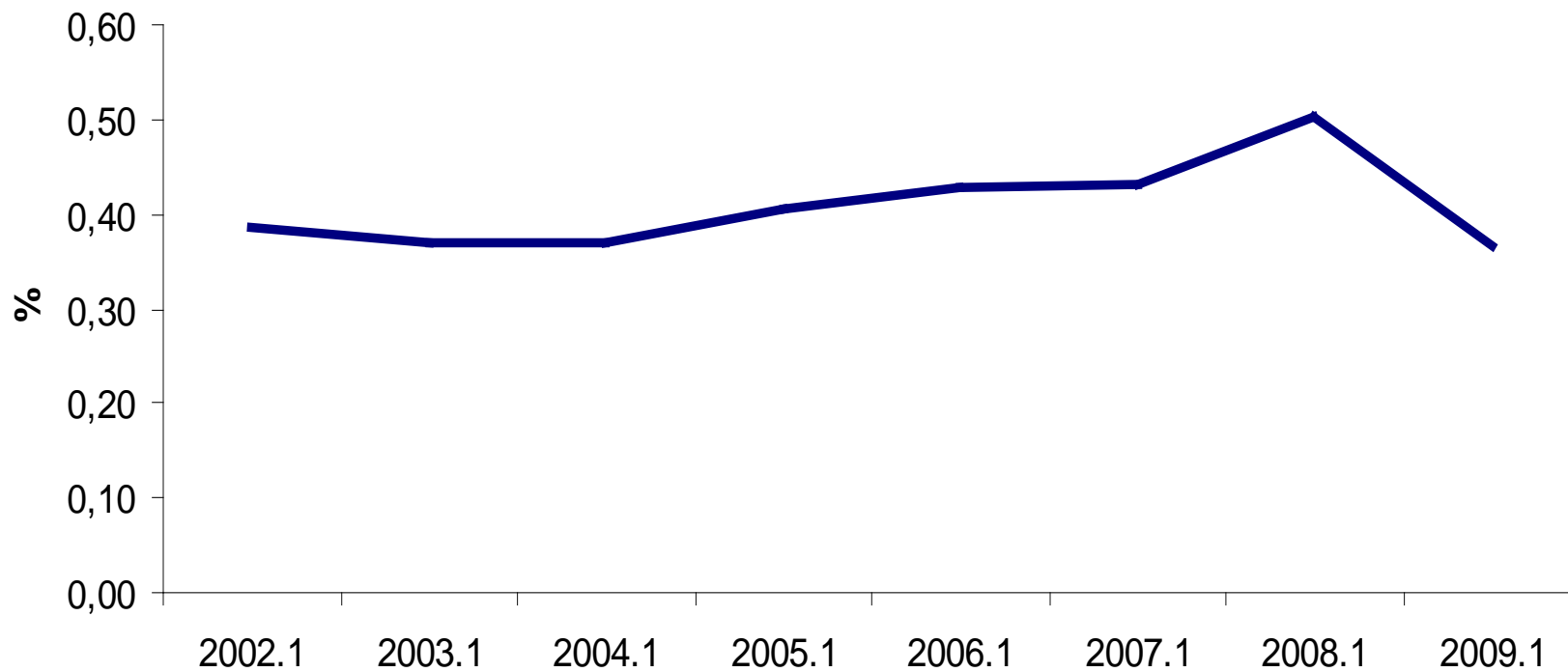
Duration of unemployment

Transition out of unemployment





Share of newly unemployed who have become selfsupporting within 13 weeks



Firms

Industrial structure:

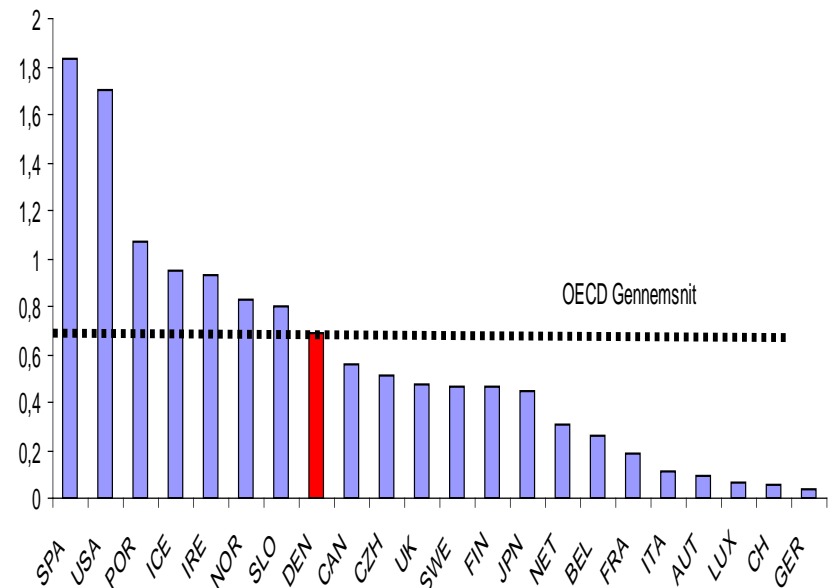
- Few large firms, many small- and medium sized firms
- Collective risk sharing
- Institutional competitiveness
- The scheme is an indirect subsidy to firms/sectors with high variability in production
- Firms pay uib only the first two days
- High incidence of unemployed workers returning to previous employer

The test – can the model also cope with a large negative shock?

- Not higher employment variability relative to GDP variations than other countries
- Possible to sustain effective ALMP with much higher unemployment?
- Possible to maintain active policy line when unemployment is high/increasing?

Employment adjustment during the financial crisis

Employment change relative to output change



Can the model be copied?

- Complementarities: EPL, Unemployment benefits and active labour market policies
- Industrial structure
- Political support (conditioned on low unemployment?)