

A stylized world map composed of a grid of dots in various shades of gray, with several dots highlighted in red. The map is centered behind the title text.

# Danish »Flexicurity« in Crisis – Or Just Stress-tested by the Crisis?

**HENNING JØRGENSEN**

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- n Serving as the role model for flexicurity, Denmark is of special interest when assessing the Nordic mix of flexibility and security on the labour market.
- n Some critics regard Denmark's flexicurity model as a Trojan horse designed to abolish work protection. Some say the model is responsible for rising unemployment, falling production, and public deficits. Is flexicurity actually crowding out market-based solutions to growth, distribution, and efficiency?
- n The foundations of the flexicurity model are deeply rooted in the institutions of the Scandinavian welfare model and are neither threatened by the current crisis nor by the current political neglect of the security-side of flexicurity. The Nordic approach to growth and welfare still has interesting lessons to teach other parts of Europe.





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## Flexicurity – From Political Celebrity to Contested Labour Market Arrangement in Crisis?

Within a very short period of time, »flexicurity« has become a popular European term. The EU officially included the concept and political strategies connected to it into its European Employment Strategy in 2007. Since then, every member country has had to report to the European Union about improvements related to flexicurity. Each country still has a right to choose its own road map, but no one can escape flexicurity initiatives and assessments.

Among the European countries well-known for having already implemented flexicurity arrangements, Denmark holds a prominent position and is seen as the model country. Delegations continue to visit Denmark and the scientific debates have concentrated to a large degree on Danish experiences and arrangements since the beginning of the 1990s.

The Danish flexicurity system has been called a »model« in both political and scientific debates. This might give a wrong impression that a model or a system can be copied by another society. The Danish system is well-established and has interrelated elements regulating the labour market in which a highly mobile labour market, income security, and employment security for wage earners are institutionalised. These interrelationships in the Danish system are unique in some respects. The fundamental rationale is to strengthen economic dynamism while protecting mobility and security at the same time. Flexibility and security are not contradictory elements. This means that employers have leeway for hiring and firing but that the welfare arrangements also give wage earners reasonably good economic compensation in case of unemployment as well as help by the state in re-entering the open labour market. The latter efforts are shaped by the active labour market policies (ALMPs),<sup>1</sup> educational measures (especially the continuous vocational training

system, CVT), good child care facilities, and other welfare arrangements.<sup>2</sup>

More kinds of measures have been built into the system in order to have a balanced and sustainable labour market system operating. That means that the flexicurity system should also function as a shelter against the wind in times of economic crisis, as currently being witnessed. Opponents of the »flexicurity approach« of the EU point to changes made in the Danish system since mid-2008 as evidence of a fundamental crack in the flexicurity »model«: high increase in unemployment, a relative decline in employment, changes in GDP, and a growing public deficit. These critics sarcastically say flexicurity is only »for good weather« (Tangian 2010) and advocate the traditional trade union answer of protecting jobs instead of protecting »employment security«.

This report will explore Danish developments during the crisis and will present these against the rationale of the labour market arrangements and the expected reactions within the system to growing problems and challenges. Can Danish flexicurity be put in the museum now?

In order to make an assessment, it is necessary also to specify the changing political framing. ALMPs were an invention of the Social Democratic-led government of Poul Nyrup Rasmussen, starting in 1993. The success of the Danish flexicurity system is strongly connected to this »activation« approach, which offers people further job training, education, and other measures that improve their skills and abilities to help them re-enter the labour market. Macro-economic initiatives supported the goal of full employment. Because of the economic progress and improved employment, the length of the unemployment benefit period could be shorted from seven to four years.

In 2001, a right-wing government took office and soon the Danish LMPs were to be reformed, both the governance structure and the content of the measures. The government began referring to labour market policy as »employment policy« in 2001 – indicating that it was only the job that counts. In 2007, the social partners were no longer to be part of public policy as they had been be-

1. Labour market policies (LMPs) are political efforts to match supply and demand within the labour market through supporting information and service systems and giving economic support to wage earners while unemployed. Active labour market policies (ALMPs) are to be understood as direct political interventions to counteract mismatching problems and politically undesired results of the market processes. Examples of these kinds of measures are job training, wage subsidies, further training and education, quotas, and other forms of regulative measures.

2. A longer and more elaborated edition of this report with definitions of flexicurity, analytical positions, and historical analysis is to be found in Henning Jørgensen, *Stress-testing for Real: Danish Flexicurity during Years of Crisis*, Friedrich Ebert Stiftung, 2010.

fore. Regional labour market policy and the corporatist bodies (14 regional labour market boards) responsible for the planning and implementation of »employment policy« were suspended. Instead, 91 local job centres were established with the social partners in advisory positions only. From 1 August 2009, the municipalities took over formal responsibility of employment policy – also for insured wage earners. Education was no longer used as a primary measure. More »work first« elements were introduced in the system, giving social discipline a prominent position. Sanctions were introduced. Integration policy was also used as a lever to obtain more general changes in the activation and security systems.

Danish LMPs no longer seem to be the progressive measures they were in the 1990s. Now they look more like a mainstreamed European »work first« approach. And corporatism has been abolished, giving the municipalities full responsibility for activation and employment measures, but still with the state as a controlling and steering body. As a governance structure, a principal-agent relationship has been established. Successes of the government in changing the security elements in the Danish system have, however, also been recorded. The most recent one is a reduction in the length of the benefit period to two years only, decided on in spring 2010.

Will the Danish flexicurity system break down because of this internal political recalibration of LMPs and the external economic pressures since mid-2008? Or will it survive partly or in total? What is the assessment? Based on the interrelationships in the Danish flexicurity system, one would *expect* the following to happen in times of economic recession – and these assertions will be supported with empirical evidence:

■n Firstly, a *steep increase in unemployment* will be inevitable. Employers will immediately adjust manpower to production needs, as this is legal and does not involve high costs for them. Next, common efforts to combat unemployment developments will be started. Cooperative solutions will normally be found, also with the help of agreements between the social partners.

■n Secondly, *economic stabilisers* in the system will keep domestic demand at a certain level, keeping the unemployment figures in check. Expansive finance policy will be implemented. The unemployment level will stabilise – and stay below the European average.

■n Thirdly, *LMP measures* to re-employ people (especially youngsters and long-term unemployed) will be strengthened, implementation will put responsibility on more actors, and also youth and long-term unemployment will stabilise to a comparatively low level.

But adjustments need time. Here we must use the developments from 2008–2010 in exploring these statements. Were these three kinds of reactions present in Denmark in 2010?

## The Coming of the Economic Crisis 2008–2010 and the Problem Structure

The dramatic change in the Danish economy with the onset of the economic crisis in the second part of 2008 can be seen in the unemployment figures. In June 2008, Denmark claimed the lowest rate of unemployment in the European Union, whereas in June 2010 Denmark had dropped back to position five in the rankings (Eurostat 2010). Figures 1 to 3 highlight the changed situation.

Figure 1: European unemployment rates June 2008

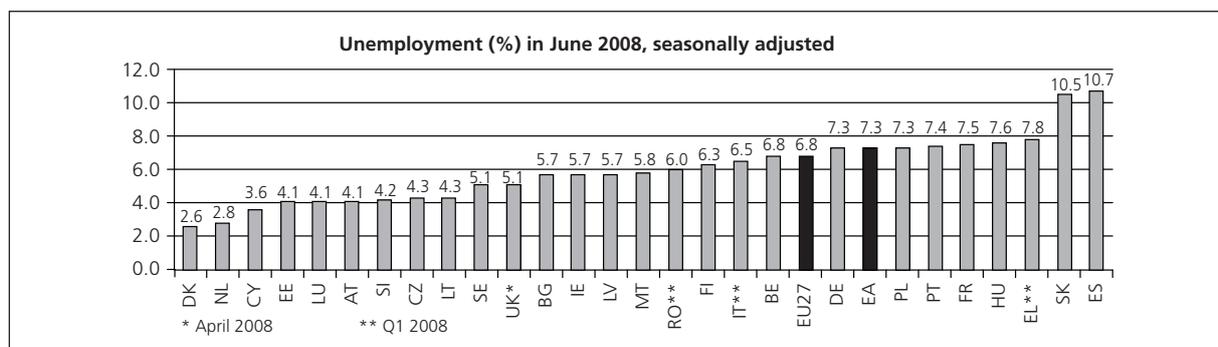




Figure 2: European unemployment rates June 2010

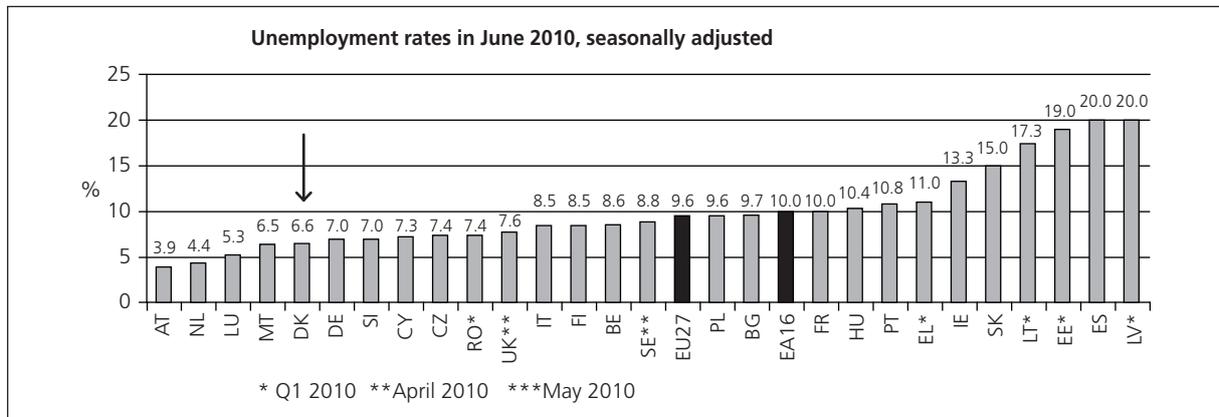
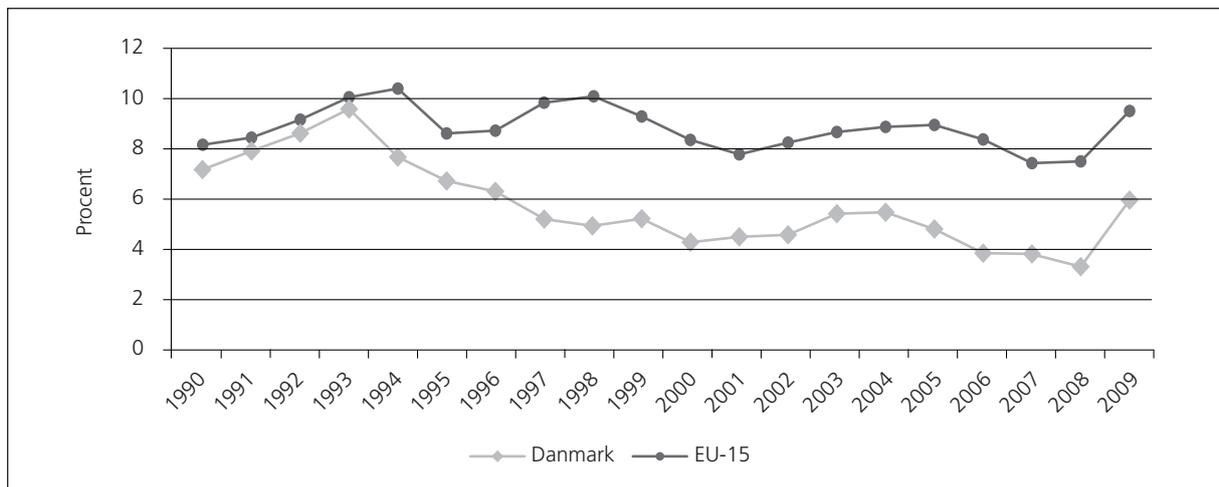


Figure 3: Unemployment in Denmark and in the EU 1990–2009



Source: Eurostat

In relative terms, Denmark seems to have been hit seriously by the crisis, as measured by the unemployment figures. Since Denmark entered the crisis with a very low level of unemployment, the relative increase is biased. There might also be differences as to the measurement point in time, as countries were hit by rising unemployment at different times. The development of unemployment since 1990 is illustrated in figure 3, comparing the EU 15 and Denmark.

In absolute terms, Denmark is performing a little bit better, but it must be accepted that one of the »flexicurity« indicators has lower scores. This change of situation within the labour market must, however, also be seen in relation to the quick and clear decline in production

(GNP) – which was greater than the European average – and a corresponding decline in employment, for example taking into account the national development of the business cycle. More than 170.000 jobs have been lost during the last two years in Denmark. This gives a much more detailed picture of an economy experiencing an abrupt change of situation – but then it is also less dramatic when compared to other European countries. A rise in Danish unemployment from August 2008 to February 2010 of 2.6 per cent is only slightly greater than the average rise in the EU-27 of 2.3 per cent (Madsen 2010). This must be seen in the light of decreasing demand for labour in Danish private enterprises. Denmark then is not to be classified as an extreme case among the European countries.

A comment on the statistics is important, too. One has to notice that there is an increasing gap between the Danish registered rate of unemployment (4.1 in June 2010) and the rate of unemployment according to the Labour Force Survey (LFS) standing (6.6) (Danmarks Statistik 2010; Eurostat 2010). This gap has been steadily increasing since 2007 (Arbejderbevægelsens Erhvervsråd 2010), but as most people will use the LFS figures, the situation might look more dramatic than it is perceived in Denmark. Danish flexicurity is performing better in fighting unemployment than revealed in LFS statistics. Distributional effects in unemployment are clear, however: especially young people, unskilled workers and immigrants, and non-insured unemployed have been more severely hit by unemployment.

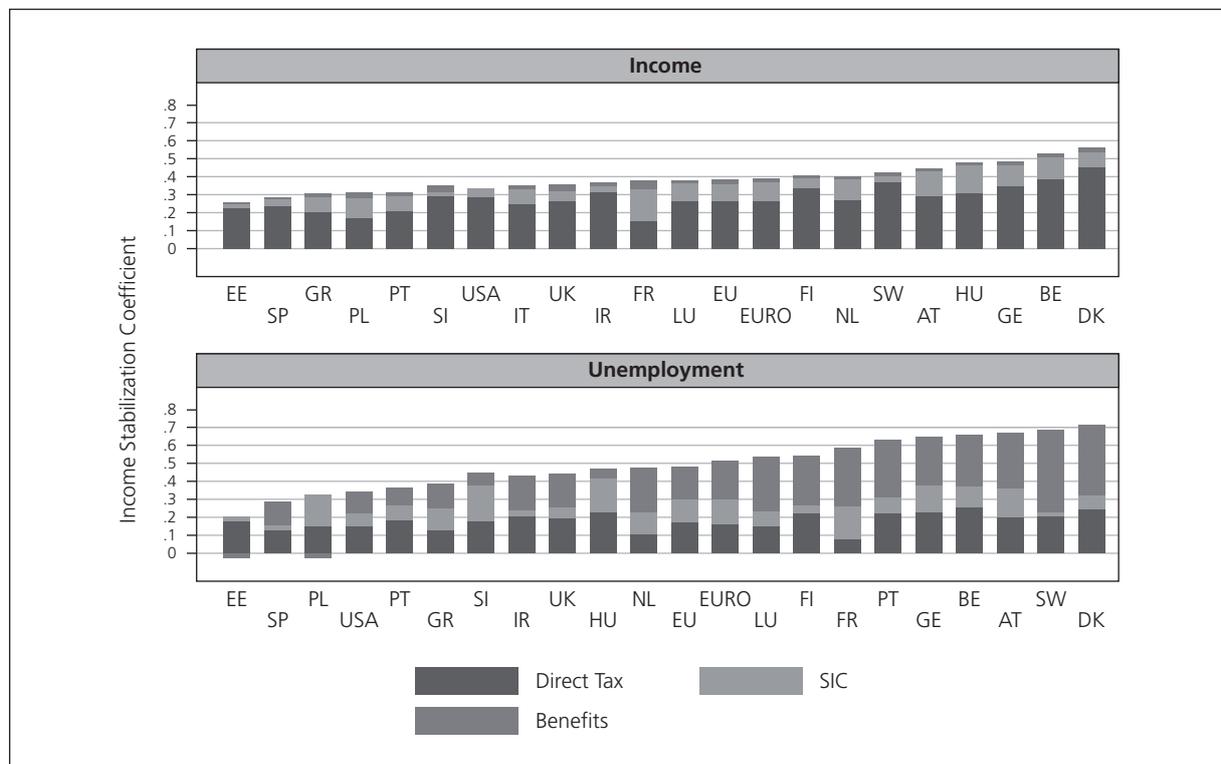
Comparing the fall in employment to the fall in production Denmark is actually one of the European countries performing best during the last two years. The labour market situation is not being worsened by the flexicurity system. On the contrary!

### The Reactions and Stabilising Effects of the Danish Flexicurity System

Based on the Nordic policy legacy and the Danish flexicurity rationale, a combination of general macro-economic and selective labour market policy initiatives were to be expected in the Danish system in trying to combat the downturn of economic activities and rising unemployment (Magnusson et al. 2008). This has also happened. Fiscal policy initiatives in 2009 and 2010 have been followed by some focussed and group-based LMP measures during the last two years. But not all of the political responses to the crisis are in accordance with the »flexicurity« rationale, which will be discussed later. First, a look at the macro-economic initiatives.

The existence of a large public sector in Denmark with strong built-in stabilisers due to high income taxes and a large proportion of the workforce being covered by unemployment insurance give the economy some help in times of a rapid economic downturn. Actually, Denmark has some of the largest *built-in automatic stabilisers* in the EU, which can be seen in figure 4 (Dolls et al., 2009).

Figure 4: Income stabilisation in different European countries



The figures show that the welfare system – given the national tax, benefits, and social insurance structure – has positive repercussions on economic activity in Denmark. Because of high unemployment benefits and relatively high social assistance benefits, domestic demand – and thereby total economic activity in society – is stabilised. Without such economic stabilisers, unemployment would have risen much more.

Thus, the effects of the economic downturn on income and unemployment are significantly mitigated. But the other side of the coin is that public budgets will mirror this during the crisis; a dramatic change from a surplus of 3.4 per cent (60 billion DKK in 2008) has been turned into a deficit of 2.7 per cent in 2009. In 2010 a deficit of 5.5 per cent is expected. Ironically, what traditional economists now praise as automatic stabilisers – that is high public spending, unemployment benefits, graduated income taxes, and welfare state activities – were looked upon prior to the present crisis as enemies of growth and economic balance. They are not.

*Financial policy* in Denmark was expansive during 2009 and the beginning of 2010. After two »bank packages«, »growth packages« have been decided on and implemented. Effects have been visible. The measures in »Forårspakke 2.0« in 2009 included the following measures: municipalities could increase their investments; private house renovations could be subsidized; new investments in infrastructure were planned; and a tax-reform made effective from 2010 lowered marginal tax rates among other things. It is especially difficult to assess the precise effects of lower income taxes on private consumption and employment. However, the expansionary character of these measures all together is undisputable. In late 2009, new decisions were taken to increase public investments with 5 billion DKK for the period 2010–2013, and the municipalities were allowed to borrow 3 billion DKK more for investments in 2010. Finally, financial resources from a so-called globalisation fund has been allocated for a number of initiatives in order to support research, education, and entrepreneurship (1.2 billion DKK). But the non-discretionary nature of the system has called for adjustments and not for large-scale policy reforms.

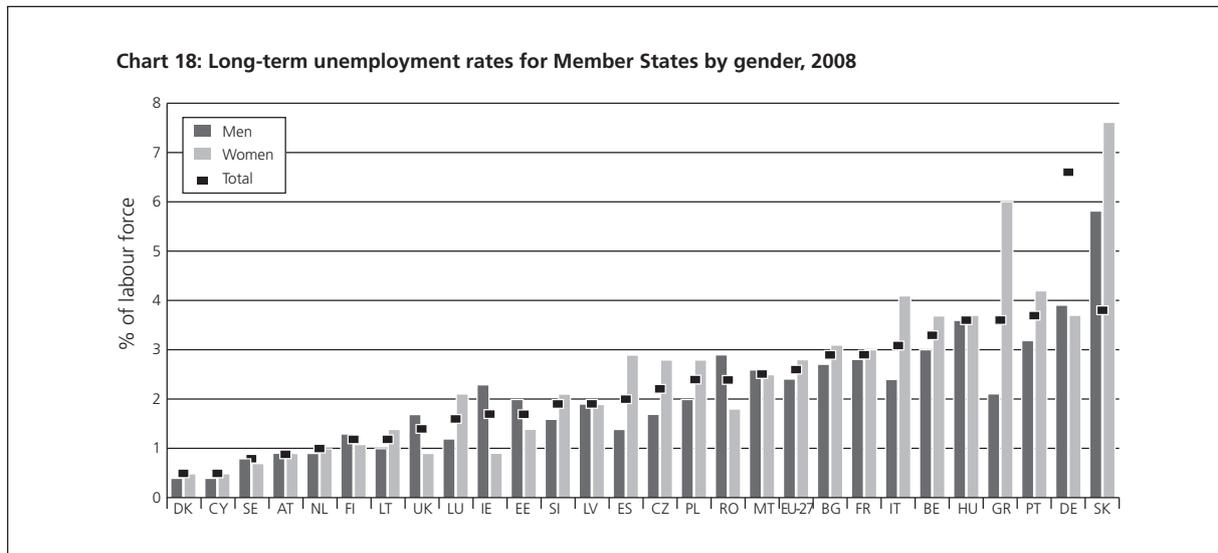
The government was very optimistic up until spring 2010 as to economic recovery. But then a changed in opinion became visible. Now a more pessimistic attitude dominates and a new approach, more in line with the

European non-Keynesian one, is apparent. The expansionist approach seems to be coming to an end soon. Withdrawal of strong economic support for the weak economic upswing is threatening in the finance budget for 2011. Still, an expected deficit of 78 billion DKK is a picture of both the economic situation and the political priorities. Even though Denmark is not part of the common European currency, the euro, the authorities are keen on bringing Denmark below a deficit of 3 per cent of GDP and behaving in accordance with the Stability and Growth Pact. Now the public sector is to suffer with no increases in budgets in general and cuts in more sectors. This also goes for the CVT system. Private consumption is to be the key to growth and balance. The different political »packages« to prevent the economy from breaking down certainly have had a stabilising impact, and the built-in stabilisers do support this, but new political priorities with a less expansive financial measures and cuts in public budgets threaten economic stabilisation. It is a well-known »European« picture (Bosch and Watt 2010).

As to *labour market policy interventions*, some new measures were decided on during 2009 and the first part of 2010. Two »packages« were implemented and served as the most important answers from the government to the unemployment developments. Youth unemployment was brought down to a very low level from 2005 to 2008, but young people were the first to experience rising unemployment thereafter. Measures to get those youngsters either into activation, supported jobs, apprenticeship arrangements, or educational arrangements were decided on in 2009. A training subsidy for employers hiring unemployed people and stronger educational schemes were proposed by the social partners and decided on in spring 2009.

In spring 2010, the long-term unemployment developments required new initiatives. The starting point was, however, extremely low. Compared to the European average, the situation was not dramatic. This is illustrated in figure 5, which also has a gender dimension included. Only Cyprus had as low a total figure in 2008. The measures already decided on by the Danish Parliament in an action plan to combat long-term unemployment will also have an effect in the months and years to come – even if this late initiative could be stronger. A doubling of long-term unemployment in 2010 is a challenge for Danish flexicurity because of other political decisions made recently. The shortening of the benefits period from four to

Figure 5: Long-term unemployment in European countries 2008, total and by gender



Source: Eurostat, EU LFS.

two years and the difficulties in regaining unemployment benefits rights might threaten the situation for quite a number of people in the years to come.

The government has not re-programmed the »employment policy«, despite the economic crisis. It has only made the situation for young people a bit brighter with the special measures created. Long-term demographic factors and the non-discretionary character of the system clearly diminishes the political will for recalibrating the LMPs again. Future Danish problems in respect to demography are in no way of the same magnitude as in other European countries.

The Danish government has made piecemeal changes to Danish ALMPs during the last seven years and there is a clear pattern behind the efforts. Activation policy has been renewed, introducing more »work first« elements, and it is not of the same kind as in the 1990s (Jørgensen 2010). The governance structure of the LMPs has been strongly reformed, making the municipalities fully responsible – also economically – for all unemployed workers (including their benefits), albeit with the state reimbursing most of this. The administration of benefits for the insured will still be through the unemployment insurance funds – for the moment. This is in danger of being taken over by the state itself or by the municipalities in the future. But this will be against the will of the

trade unions. As to the content of ALMPs, policy measures countering rising unemployment have been created, with young people and long-term unemployed at the centre. Activation has now been upgraded again, but with outsourcing to private firms as a policy goal. LMPs are highly influenced by the business cycle and the public deficit is certainly a stress factor on the system.

When assessing the responses of the Danish flexibility system to the economic crisis, you must look at more than political initiatives. This is a very important point. The social partners have made a number of joint decisions to stabilise labour market developments, adjusting – among other things – *working time arrangements and wage formation* to changing circumstances. Private regulation and adaptation is important in Denmark. On the sectoral level and on the local level, adjustments have taken place, most of which have been consensual in character, despite the conflict-ridden labour market developments. The collective agreements are made in ways that offer the possibility for local adjustments in case of agreement between the two sides of industry. This is a reflection of the built-in stabilisers in the process structures of the Danish employment system. The dramatic decline in production and employment has now been turned into growth figures. From the first to the second quarter of 2010, employment again rose in Denmark – a positive sign of more than just stabilisation. The

prospects for economic growth in 2011 lie just below 2 per cent, according to the government (budget for 2011, September 2010).

On the sectoral level, wage flexibility has been increased, too, but at the same time – for the first time – payment in case of dismissal for people with tenure of more than three years was introduced in the collective agreements in spring 2010. This is a first step away from the Danish flexicurity principles as it could be seen as another kind of job protection measure. However, my interpretation is that it is a kind of political protest against the missing regulation of the level of unemployment benefits. During the last two decades, the average replacement rate has been lowered, and especially people with high salaries will experience a severe loss of money in case of unemployment. Professional groups with replacement rates of only 50 per cent or less are not uncommon now. It is a signal to the political system for improving benefits. The answer from the government was a shortening of the benefits period from four to two years – without any changes in benefit levels. This provocation has been perceived as a declaration of war by the trade unions. And, consequently, they fully support the left-wing parties' plan for growth and welfare (the Social Democrats and the Socialist People's Party). An election is to be held within the next year.

During the crisis, the highly mobile Danish labour market was effective and employment security endured. Priority was given to a strict regime of activation and support for education and training until 2010. Keeping income security intact has been more difficult because of the government's liberal proposals; but for most wage earners, the system has confirmed its value. The policy mix has been put to a test; but it did not fail, it seems.

It is important again to stress that the political efforts of the Parliament cannot be seen in isolation from the private collective bargaining and collective agreement system also regulating the labour market in Denmark. This is done in partial coordination between the political administration and the social partners. It is the interplay between macro-economic governance, collective bargaining, and ALMPs that has produced »good governance«. The present government is making risky experiments with the stabilising arrangements and the contact capabilities.

With the abolishing of both political and administrative corporatism during the last few years by the liberal-conservative government, the social partners have continued their own regulations but with weaker coordination of political efforts (Jørgensen 2010). A potential threat to the common understanding, coordination efforts, and the cooperative mood in Denmark is apparent. Danish flexicurity is less secure on the process side – and this can have repercussions as to the functioning of the system and the results produced, when considering a longer-term perspective. Trust can break down – and cooperation will then be eroded.

But it is equally important to learn from the Danish developments that a mobile labour market, transitional labour market opportunities, and a policy of full employment still can be combined (Schmid 2008). Good and trustful processes and robust policy results are strongly interconnected in a flexicurity system.

## Is the Party Over?

Seen from abroad, there is perhaps no basis for having a party any longer as Danish flexicurity is considered to have severe problems. Danish flexicurity is not delivering and can no longer be a role model for other European countries – as critics have maintained. Despite EU support for flexicurity, opposition to a flexicurity strategy is being seen now, especially in southern European countries and Germany. Is the party over? Our analysis indicates that it might be too early to say goodbye to flexicurity.

As a political strategy, it must be developed in accordance with national traditions and institutional set-ups; but seen as a concept covering a state of affairs and a way of operating a national labour market system, the Danish developments since 2008 have not made the pessimists right. The system has proved its ability to react over time to changing circumstances with both political and private collective initiatives to deal with most of the problems, and in ways that have not done damage to the fundamental rationale of the flexicurity system – despite an asocial tax policy and a recalibration of LMPs by the right-wing government. Otherwise, the actions and reactions within the Danish system seem to be in accordance with the three kinds of reactions expected – and supported by empirical evidence.

The Danish labour market has shown its flexible character by keeping mobility very high despite lower economic activity and rising unemployment. Job elimination and job creation has remained at a high level during the crisis. Job-to-job mobility has also remained at a very high level. Changes and adjustments need time, however, and a longer perspective will increasingly prove that the system itself is able to deal with most of the challenges. It is not the relative increase in unemployment and short-term changes that count, but the bottom line over a longer period of time after adaptations have been made. These involve actors and arrangements at all levels. Regulation of employment and labour market performance has many actors and action fields. Youth unemployment has been conquered, the unemployed have been re-employed by strengthening activation measures, and the social partners have adjusted wage formation and working-time arrangements. The »secret« to success has been to support positive interactions, create virtuous circles between different policies, and foster cooperation between actors. Nothing is optimal, but there has not been a breakdown in the flexicurity system. Despite the crisis, employment problems, and political conflicts, the Danish system still works.

However, for political and ideological reasons, the present right-wing government has changed part of the institutional structure for coordination and cooperation within the system during the last three to four years. This was the first measure to weaken the system. Secondly, the government responded in a reasonable way to the economic crisis in macro-economic terms from 2008 to the beginning of 2010, combining sound macro-economic support for an employment-friendly policy and new group-oriented measures in LMPs. But it has also made decisions directly against the trade unions and the unemployed. The trade unions have an ideological opponent in the present government, and the costs for adjusting to the economic crisis have been forwarded to people on unemployment benefits and on social assistance, including immigrants and refugees. Tax breaks have been given to high-income groups while those at the bottom of the wage hierarchy have suffered. The negative effects on public budgets are clear, while the positive effects on domestic demand and employment are not that secure. The only sure thing is that tax reforms are underfinanced in the short run, contributing to a growing public deficit. Without these tax reforms, Denmark would have had no

problems performing well and in accordance with the Stability and Growth Pact criteria.

Direct governmental initiatives to destabilise the trade unions – through tax reforms, abolishment of political support for trade union membership fees, creation of cross-professional unemployment insurance funds etc. – have resulted in open protests and demonstrations during the last two years. The anti-social side of governmental policy is a threat to some of the security elements in Danish flexicurity. Answers from the side of the social partners have been seen, too, also common ones (among those, protests against municipalisation and the new set-up of governance structure of LMPs).

The income security elements are not the only ones that count. Employment security and welfare arrangements are very important in this respect. Still, Denmark has supportive and comprehensive child care facilities, helping the nation to reach one of the highest employment rates in the world – also for women. However, the pressure to have stronger ALMP measures implemented is growing. A more comprehensive re-programming of ALMPs might be needed, again abolishing more »work first« elements in activation policy. And a new threat to the balance and performance of the Danish employment system is emerging with the new financial government proposals for 2011, according to which the strong macro-economic support for demand is to be downsized.

Dramatic changes are not to be expected before the coming election. Some time-lag in adjustments within the Danish flexicurity system must be recorded, too. Fundamental arguments to stop the flexicurity party are, however, difficult to find. Let us stick to the facts:

■ Danish flexicurity was not a political invention – and it will not disappear because of short-sighted decisions by an ideological right-wing government. Flexicurity is the historically institutionalised relationship between the labour market regime and public policies in relation to security for wage earners and dynamics in the labour market. Institutional complementarities will still be produced, also during years of crisis. They are difficult to record in statistical calculations and to reflect in traditional economic theory.

■ The flexicurity system is embedded in a special policy-mix of general macro-economic policies and selective policy efforts meant to deal with severe problems. No isolated policy response is sufficient. It is precisely the interplay within the system between the elements and the adaptation processes that stabilises the system, even after dramatic changes. In the Danish case, the welfare system with its automatic stabilisers and the collective efforts to stabilise the economy and to defend employment security account for the positive turn in production, employment, and investment visible in 2010.

■ Danish flexicurity was not created with the ALMPs of the 1990s – and it will not disappear because of political mismanagement of the active elements. At the local and regional levels, common strategies and solutions to unemployment problems are still being developed by the municipal representatives and the social partners. Trust has not broken down yet in the Danish system between the private actors, and »activation« is not the sole responsibility of the Minister of Employment. Especially the efforts to combat long-term unemployment seem to be in need of improvements.

■ The Danish flexicurity system has been developing for more than 100 years – and it will not disappear with governmental policy decisions in 2010. Protected mobility, dynamism, and security elements are fundamental. Some of the basic relationships between elements are to be found also too in the Swedish employment system and in the Nordic tradition of securing growth and welfare. Therefore, there will, probably, still be a future for Danish flexicurity. And the Nordic approach to growth and welfare might still teach interesting lessons to other parts of Europe.

Flexicurity is not only for good weather (Tangian 2010). It must be for all kinds of weather and for all seasons. A true optimist could join the former Danish Minister of Employment Claus Hjort Frederiksen in saying – when making propaganda for Danish flexicurity at the London School of Economics in 2009 – »I have faith in flexicurity. It will serve us well in both the best and the worst of times«. But then you need to properly maintain the system – and not do damage to the security elements in it!



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### About the author

**Henning Jørgensen** is Professor at the Centre for Labour Market Research at Aalborg University and Former Director of the European Trade Union Institute in Brussels.

Contact: [henningj@epa.aau.dk](mailto:henningj@epa.aau.dk)

### Imprint

Friedrich-Ebert-Stiftung  
Department of Western Industrialised Countries  
Division for International Dialogue  
Hiroshimastraße 28 | 10785 Berlin | Germany

Responsible:  
Anne Seyfferth, Head, Department of Western Industrialised Countries

Tel.: ++49-30-269-35-7319 | Fax: ++49-30-269-35-9249  
[www.fes.de/international/wil](http://www.fes.de/international/wil)

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FES in the Nordic Countries focuses, in particular, on the exchange of ideas on common challenges in social, economic and foreign affairs, such as:

- experiences from welfare state and social reform, especially with regard to equal opportunities, participatory democracy and public sector performance;
- experiences in the fields of foreign and security policy, European integration and Baltic Sea cooperation;
- experiences in the areas of integration and migration policy.

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