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NEW REPORT: The Danish Labor Market, 2000–2016: The success story of the “Flexicurity” model

A new IZA World of Labor report looking at the labor market in Denmark finds a sharp decline in employment in the wake of the Great Recession, but high job turnover and wage adjustments worked to prevent long-term unemployment from increasing.

Denmark is often highlighted as a “flexicurity” country characterized by rather lax employment protection legislation, generous unemployment insurance, and active labor market policies. The economist Torben M. Andersen of Aarhus University, Denmark shows how this system proved itself during the major crisis triggered by the Great Recession: Despite a sharp and prolonged decline in employment, high job turnover and wage adjustments worked to prevent long-term and thus structural unemployment from increasing.

The flexicurity model has been heralded for its ability to reconcile flexibility with social security. This model combines the employers’ demand for flexibility with workers’ demand for income security, and maintains work incentives via active labor market policies. A key property of the flexicurity model is a high level of job turnover, implying that the unemployed (as well as the youth entering the labor market) can find a job fairly easily and that most unemployment spells are short. The average duration of an unemployment spell among those on unemployment benefits was 17 weeks in 2014. This high level of turnover in the labor market is also the driving force behind Denmark’s comparably low levels of youth and long-term unemployment. Both are about half the EU average, during the crisis years and at other times too.

Furthermore, wage flexibility—both upward and downward—has been relatively high by international comparison. Wage dispersion in Denmark remains low by international comparison. There are few working poor, and the number did not increase much during the crisis. It is noteworthy that the wage share has remained fairly stable for decades, and there has not been a shift between labor and capital income, as experienced in many other countries.

But challenges remain: The wage structure of the flexicurity system is compressed and minimum wages are high by international comparison, thus creating a situation in which the qualification requirements to find jobs are also high and there are few low-skilled jobs. This is important for maintaining a relatively equal distribution of income, but it is also a precondition for the financial viability of the welfare model. Therefore, the high share of cohorts entering the labor market without labor market relevant education is a particular challenge. Policymakers are working to address this issue via changes to the social safety net and education programs, though it is too soon to tell whether their efforts will bear fruit.

Please credit IZA World of Labor should you refer to or cite from the report.

This is the sixth in a series of articles, each entitled “The Labor Market in…” Leading labor economists and macroeconomists from each of these countries have agreed to write an article summarizing the current state of the central issues in the country’s labor market. Please read our previous articles on country labor markets, including US, Germany and Japan.

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Notes for editors:

IZA World of Labor (http://wol.iza.org) is a global, freely available online resource that provides policy makers, academics, journalists, and researchers, with clear, concise and evidence-based knowledge on labor economics issues worldwide.

The site offers relevant and succinct information on topics including diversity, migration, minimum wage, youth unemployment, employment protection, development, education, gender balance, labor mobility and flexibility among others.

Established in 1998, the Institute of Labor Economics (www.iza.org) is an independent economic research institute focused on the analysis of global labor markets. Based in Bonn, it operates an international network of about 1,500 economists and researchers spanning more than 45 countries.