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Contents:

Annual LO-report documents	
pressure on flexicurity	page 1
Forced retirement ruled out by the ECJ	page 5
Green production requires investments	page 6
National reform programme	page 7



Annual LO-report documents pressure on flexicurity

The annual LO-report on labour market developments, "Labour Market Zoom 2010", published this week, devotes special attention to the status of the Danish Flexicurity model. Much has happened during the past ten years, and with the current Government's austerity package in May of this year, the highly praised Danish labour market model has come under pressure from within.

Danish flexicurity today

According to the international comparison in the report, the results of the Danish flexicurity model as per 2010 are excellent. However, it is also apparent that the model is challenged by the gradual erosion of the security element. From 2000-2009, the average Danish employment rate was ideally high, unemployment was at a minimum and job turnover was considerable - all due to a high level of adaptability and mobility on the Danish labour market.

In an international context, however, there are a number of issues that give cause for concern and which may threaten the flexicurity model in the long term. For instance, the reduction of economic compensation during unemployment has continued for a number of years now, and with the austerity package, inequality will increase in line with the risk of social marginalisation.

The three pillars

The flexicurity model is embedded in Danish employment policy and it rests on three pillars;

The first pillar is a very flexible labour market where companies can relatively easily hire and fire. This makes it easier for companies to adapt to changes in the level of business activity.

The second pillar is the public social safety net which alleviates the income reduction upon unemployment, thus avoiding the negative social consequences.

The third pillar consists of the interplay between active employment- and skills' upgrading measures. The active employment measures aim to help the unemployed find a new job through different kinds of activation. The training and education efforts focus on ensuring that the job-seekers have the necessary qualifications for staying on the labour market through lifelong learning. This includes continuing training, skills upgrading and retraining. The third pillar is meant to support flexibility on the labour market by strengthening the adaptability of the workforce. In a small, open economy such as the Danish one, it is important that the workforce can adapt to the changing conditions caused by technological developments and globalisation.¹

¹ The three-legged labour market model is also supported and supplemented by a high rate of unionization and employer affiliation. The social partners, furthermore, set out the ground rules of the labour market through collective agreements.



The different components of flexicurity interact and influence one another. This means, that if one component is changed, this can influence the other components. The Danish labour market is therefore not static but is subject to constant change. Looking at a ten-year period, quite a few changes to the systems have been carried out. This does, to a certain extent, affect the interplay and the balance between income security and flexibility.

A flexible workforce

According to an international comparison referred to in the report, Denmark ranks at the very top of the list of countries when it comes to employee job turnover per year.

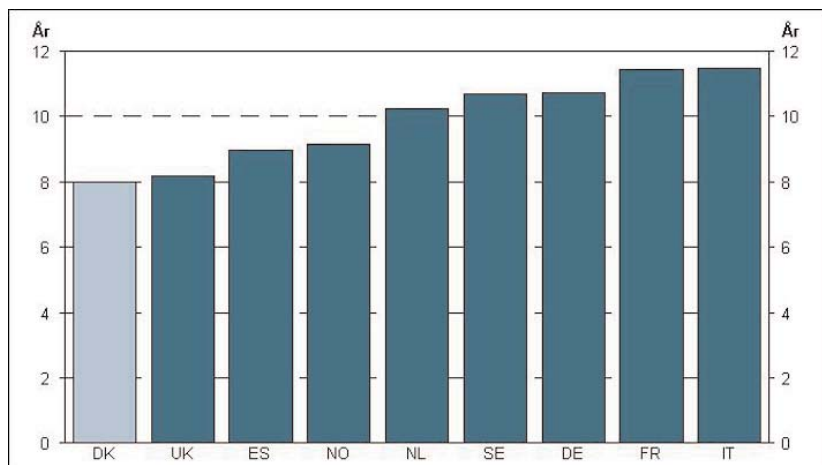
This high rate of job change bears witness of an adaptable and flexible workforce which is open to taking on new challenges.

In addition to this, job turnover - measured as the sum of workers who are either hired or fired bearing to total employment - is generally higher in countries with relatively low job protection. Actually, the highest job turnover is found in Denmark and the lowest in Italy.

However, the job turnover reflects both voluntary and involuntary job changes. The crisis has underlined how quickly Danish companies have to act in order to adapt their staff situation to the economic situation.

The length of the average unemployment period is another indicator of job turnover on the labour market. According to the international comparison referred to in this report, the countries that have the lowest level of job protection are also the countries where those who are in employment have the shortest average length of employment (year 2000-2009). Hence, in accordance with figure 4.11b, average length of employment amounts to 8 years in the UK and in Denmark, whereas it reaches 11 years on average in Italy, France and Germany.

Average length of employment from year (= år) 2000-2009



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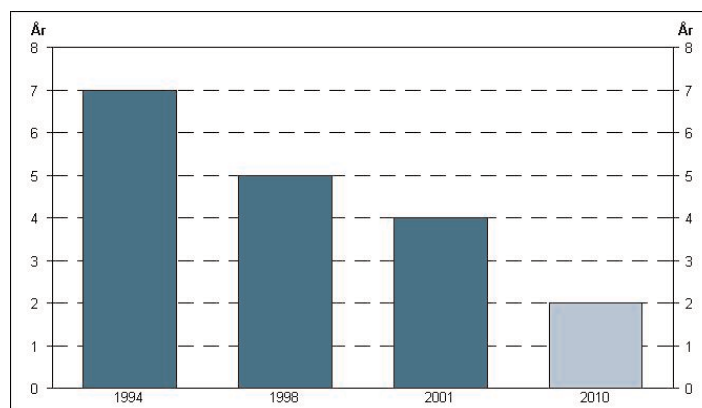
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Income security during unemployment

The wage compensation rate of the unemployment benefits in Denmark has been set at 90% of the latest salary - however, a maximum amount has also been set. Therefore, most recipients of unemployment benefits receive,² hit the ceiling for the maximum unemployment benefit payable - which means that the actual compensation rate is considerably lower than 90% of the latest salary. Average unemployment benefit wage compensation rate has decreased steadily during the past 10 years. Where, in the late 90s, an average LO-worker had a wage compensation rate of approximately 60%, it has since been reduced to approximately 52% in 2009, which corresponds to 2-3 percentage points a year.

The duration of the unemployment benefit period has been reduced considerably since the mid-90s following a number of labour market reforms which included a reorganisation of the active employment policy. In 1994, the unemployment benefit period was thus reduced to 7 years and the right to receive unemployment benefit again was conditioned by a certain period of employment. At the same time, a system of "right and duty" to activation was introduced which applied after four years' of receiving unemployment benefit. Since then, the maximum unemployment benefit period has been further reduced - from 5 years in 1998 to 4 years in 2001.



For a number of years now, the wage compensation rate paid out as unemployment benefit has been steadily reduced.

In connection with the Government's austerity package in May 2010, the unemployment benefit period has been reduced even further. This time by 50% from 4 to 2 years as of 1 July 2010, cf. figure 4.4. The reduction of the unemployment benefit period is gradual so that all those who have recently become unemployed - after 1 July 2010 - have the right to a 2 years' unemployment benefit. In comparison, those who are already unemployed have the right to receive unemployment benefit for a maximum of 2 years after 2010. Once the reduction of the unemployment benefit period has been fully phased in by 2012, it will have been reduced by 60% since 1998. If the unemployment benefit period was reduced from one day to the next, for instance on 1 July 2010, approximately 11,000 unemployed workers would have lost their entitlement to unemployment benefit.³

² The Ministry of Finance estimates that 10-15% of the recipients have not received the unemployment benefit maximum.

³ In week 20 of 2010, 11,112 persons had accumulated 104 weeks of continuous employment entitling them to unemployment benefits, cf. the Dream registry.

Active labour market policy

Regardless of the economic situation, it is vital for the flexicurity system that active employment policy contributes to ensuring that the unemployed have the opportunity to find new employment. The active employment policy which was led in the second half of the 1990s is estimated to deserve most of the credit for the considerable reduction of unemployment at the time.

The active employment policy is adjusted on a continuous basis. Throughout the 90s, the gradual reduction in the unemployment benefit period was combined with increasingly intensified focus on right-and-duty activation, and increasingly targeted initiatives.

The focus of the activation effort has also been changed. More focus has been given to activation targeted directly for the business sector and less to regular skills upgrading and training. This focus has been underlined regularly through the government's strategy to aim for company-traineeship and jobs with wage subsidies.

For a decade now, the training and education-element of the activation measures has thus been given an increasingly lower priority and the share of employment benefit recipients who are undergoing training and education has been reduced from 60% to less than 40%.

This development is very unfortunate in view of the fact that, during the past few decades, there has been a tendency towards considerable shedding of jobs for unskilled workers combined with a general over-representation of unskilled workers in the unemployment statistics. This tendency has only become intensified during the current economic crisis. In addition to this, the new jobs that are emerging in Denmark are increasingly jobs that require training or education - either as skilled workers or workers with tertiary education. It is therefore vital that the activation efforts continue to include skills upgrading of persons with short-cycle education or training so that, when or if they become unemployed, they will be able to obtain the skills and knowledge to find work in a different industry or job function.

How is the Danish flexicurity model doing then?

The low level of costs in connection with dismissals allows companies to adjust their activities in accordance with market demand. On the other side, it also means that there is less time for taking decisions on staff reductions. This often entails a great number of job openings.

Notice periods for workers in the private sector are short - even for workers with long seniority. In most collective agreements, notice periods have remained relatively unchanged since 1998.

Maintaining these short notice periods, however, presupposes a reasonable level of social security upon dismissal. Before the collective agreement renewal between LO and DA (the Danish Employers' Confederation) it was unheard of to conclude central collective agreements establishing the right to redundancy pay for workers.

However, the long term erosion of unemployment benefit compensation described above, combined with the increased insecurity in the wake of the mass firings brought on by the crisis and the relocation of work to other countries, however, have led to the introduction of redundancy pay for employees with a seniority of at least 3 years in a number of the main collective agreements negotiated for 2010-2012.

The future consequences of the Government's austerity package, which severely undermines the safety net provided by the unemployment benefit system, will presumably involve further provisions on redundancy pay and new demands for security in connection with the coming rounds of collective bargaining. When the public safety net is undermined, more attention will be brought to securing the income base by means of the collective bargaining system.

One of the authors of Zoom 2010, LO-economist Lena Larsen, comments on its results saying,

"There is no doubt that, in terms of flexibility, we rank among the top countries with which we compare ourselves. However, the security and employability elements of the Danish model have become eroded.

This has happened in several areas. Among other things, the lifelong learning leg has been cut short, both through massive cuts and because skills upgrading as part of an active employment policy is used to a much lesser extent than previously. Compensation rates have been declining and the benefit period has now also been reduced.

The reduction of economic security for the unemployed has thus led to a reduction of flexibility", Lena Larsen concludes.

As flexibility constitutes one of the three pillars underlying the Danish flexicurity model, future developments will be decisive to its survival. And we will, of course, follow this development closely in Danish Labour News.

Forced retirement ruled out by the ECJ

On 12 November, the European Court of Justice (ECJ) set aside the Danish Salaried Employees Act in a case of non-payment of redundancy allowance. – I am very satisfied with this judgment, says Confederal LO-Secretary, Marie-Louise Knuppert.

The ECJ has set aside the Danish Salaried Employees Act in the case on an employer's refusal to pay redundancy allowance to an older employee. As a result, the Danish Salaried Employees Act must now be amended.

The case in question is about a Danish employee by the name of Ole Andersen, who was fired from his job at Region Syddanmark in 2006. Because of his age - 63 at the time of the dismissal - and in accordance with his pension terms and conditions, Ole Andersen was entitled to immediate retirement. However, he was not interested in this but preferred to register with the unemployment insurance agency, expecting to receive a redundancy payment from his previous workplace where he had been employed for 27 years.

However, Ole Andersen's former employer did not agree that he was entitled to redundancy pay. This was accordance with § 2a, 3 of the Danish Salaried Employees Act. It had also previously been established by the Danish Supreme Court. This ruled out any possibility of having to pay redundancy pay to Ole Andersen. As a consequence of the Salaried Employees Act, it has thus, so far, been irrelevant whether or not the employee in question wants to retire.

– I am very satisfied with this judgment. It is unacceptable that companies can send their older employees on retirement against their will just to avoid having to pay redundancy pay. This is a good day for the fight against age discrimination, says Confederal LO-Secretary, Marie-Louise Knuppert.

The (Danish) Western High Court brought the case before The ECJ with a view to establishing whether it is in accordance with the directive on equal treatment (in employment and occupation) for an employer to avoid redundancy pay if an employee can retire immediately upon dismissal - regardless of whether the employee wants to retire or not. But in this case, the ECJ ruled against the employer. As a consequence, it will become more expensive for the employers to fire older employees.

– The ruling now requires an amendment of the Salaried Employees' Act so that older employees can no longer be discriminated against by companies that try to avoid having to pay redundancy allowance to older employees, even though these employees might want to stay on the labour market a while longer, says Marie-Louise Knuppert.

Green production requires investments

The Danish Commission on Climate Change Policy has presented a set of interesting suggestions to how Denmark can make the transition to a society which is independent of fossil fuels in the course of the next 40 years. However, there is a need for far heavier investments into research than what the government has previously announced.

LO welcomes the report from the government's Commission on climate change. The good news of the report is that the transition to a society free of fossil fuels will be a lot more inexpensive than according to previous estimates.

– LO encourages the Danish government to take the Climate Commission's recommendations seriously and present a plan for the transition to fossil free production as soon as possible, says Marie-Louise Knuppert.

We realize that it is a huge challenge - and even though the report says that it will not be significantly more expensive to readjust to a fossil free society than not to anything, it is important that the vision of our nation becoming independent of fossil fuels is combined with the desire to maintain Denmark's role as a producing country. It is therefore important to take Danish corporate competitiveness into consideration just as it is important to ensure, that the price we will pay will not be in terms of a negative social impact.

– There is great job potential in the transition to a green economy. However, we need investments into research and energy technology that are far more ambitious than proposals that have so far been presented by the government.

A Danish roadmap for a greener future must be linked to the EU's policies and ambitions in this area. We must use our frontrunner position in Europe to push for an international agreement which protects our workplaces in the best possible way.

– I am optimistic on behalf of the climate and the labour market. If we handle this situation the right way, we can protect the earth for the benefit of future generations, prepare for the supply shortages that may follow once the North Sea oil runs dry while also creating thousands of decent, sustainable jobs for our members, says Marie-Louise Knuppert.

National reform programme

LO's reflections on the Danish government's targets for the EU-2020-strategy

As all other EU member countries, the Danish government must present its preliminary targets for the EU 2020-strategy. As part of the national reform programme for EU-2020, the Danish government has announced the following targets:

- " The Danish employment rate must be raised to at least 78.5%
- " Denmark will spend 3% of GDP on research and development.
- " Denmark will reduce gross energy consumption by a further 4% towards 2020.
- " The Danish rate of early schools leavers must be below 10% for 18-24 year-olds and at least 40% of the 30-40 year-olds must have a degree or diploma.
- " 20,000 persons should be lifted out of poverty or social exclusion before 2020.

LO finds that the Danish government's targets are too unambitious in a number of areas.

LO looks forward to taking part in the discussions in the spring of 2011 on a final and ambitious target for raising the employment rate. Furthermore, LO finds that Denmark should have more ambitious goals for research and development, since we already live up to the mentioned goals at present.

The final Danish climate objectives depend of an upcoming energy policy agreement and LO hopes that this agreement contains a plan for energy renovation and the means for research into energy technology. On a more general level, LO finds that the national goals and initiatives lack ambitions to improve our vocational training system so that we will be ready to meet the imminent need for securing that Denmark has a highly skilled workforce in future. The Danish government does not wish to follow the EU-Commission's or the OECD indicators on poverty or social exclusion but plan to prepare its own qualitative indicators. LO finds this problematic since it makes it difficult to assess when someone is actually poor and it shelve the work to find specific solutions to the problem.