Claus Hjort Frederiksens tale ved konferencen "Reconciling labour flexibility with social cohesion"

Taler
Claus Hjort Frederiksen
Beskæftigelsesminister

Dato
17. november 2005

Good morning ladies and gentlemen

Thank you, Mr. Secretary General for your invitation to speak at the opening of this Forum for 2005.

I am very pleased to have this opportunity to take part in a conference, which sets focus on a vital issue: How can we ensure flexibility in the labour market as well as social security and social cohesion in Europe?

This issue has also aroused a lot of interest for us in Denmark.

All the European countries are facing the same challenge: From the outside, globalisation is placing new demands on enterprises' competitiveness, staff competences and flexibility, as well as on labour market flexibility. Internally, demographic developments – with a greater number of elderly people and fewer

of working age – are putting pressure on welfare systems and the availability of labour.

Europe has to deal with these challenges; and deal with them in a way which does not compromise social security and social cohesion.

How are we tackling the challenges of globalisation and an aging population in Denmark?

Right now, things are looking good for Denmark:

- Economic growth is well above the EU average

- We have a balance of trade surplus and are rapidly repaying our debt

- We have high employment and low unemployment

- And we have a well-developed public sector with surpluses on public budgets

A number of international surveys also point to Denmark as one of the world's most competitive countries. This is due to political regulation, macro-economic stability, good infrastructure and a willingness to welcome enterprises wanting to invest in Denmark.

From my chair in the Ministry of Employment the reasons for Denmark's success are:

1) Sound and stable macro-economic policy

2) A flexible labour market

3) A decentralised labour market where the social partners take a great deal of the responsibility for the economy, both centrally and decentrally.

In Europe, the European employment strategy has aimed at preparing countries for globalisation; but with almost 20 million unemployed we should ask ourselves whether this European strategy has failed? The answer is both yes and

no.

The strategy has the right idea. To be frank, I would like to have seen more European leaders take action and implement the structural adjustments which we have all have known for a long time are necessary.

One country where the leaders have taken action is the Netherlands. For years the Netherlands had a rather restrictive system: Employers had to ask for permission for lay-offs, either from the local public employment office or from the local legal system. As a result enterprises tried to make things more flexible by employing people on short contracts. These employees typically had a lower level of social security and less job security than ordinary employees.

In 1999 the Netherlands decided to correct this imbalance between an inflexible labour market for core labour and job insecurity for those on short contracts.

Protection against redundancy for ordinary employees was changed, the system permitting short contracts was phased out, and employees on temporary contracts were provided more protection.

Fortunately, there is a general movement in countries. Not just in the Netherlands, but in other countries as well. A movement away from job protection and towards job creation.

The philosophy that work should merely be shared in order to reduce unemployment is now passé. Instead, it is now about increasing the supply of jobs. France, for example recently relaxed their rules on a 35-hour working week.

As the Danish Minister for Employment I am naturally proud of our economic and employment progress over recent years. But this does not mean that everyone should do the same as Denmark.

You can never copy another country's labour market system. There are cultural differences, historical traditions, and many other aspects to consider. For employment policy cannot stand alone; it cannot work in a vacuum. No, employment policy works in interplay with other policies and it depends on society as a whole.

In order for employment policy to provide more jobs, enterprises must have a good framework. There is no point in allowing enterprises to pay for a flexible labour market and then imposing disabling taxes on them in other contexts. This impedes growth and job creation. Neither is there any point in encouraging women to follow a career, if there are no good daycare facilities for children.

Danish wealth and welfare are built on a conscious effort to establish an appropriate framework for enterprises and families, while at the same time constantly adapting the labour-market structure.

There is no single social model in Europe. Together, the member states of the European Council represent many different labour market models, which all have a background in a multitude of different historical and cultural influences.

But even though these countries have different models, they build on several common values and common elements: a state pension, free public health care, free education for all, labour market regulation and redistribution of wealth via general taxes; and the member states are responsible for establishing and funding these benefits.

Countries can inspire and learn from each other, and this is essential for Europe. An example of where the EU is working in this way is through the common employment strategy, where the core of the Lisbon target is to promote flexibility combined with job security.

But the Lisbon Strategy should be regarded globally and not just regionally within the EU. We are putting a lot of energy into drawing up legislation that ensures equal competitive conditions between EU countries. But sometimes this puts a burden on EU countries, which makes it hard to compete internationally.

Please don't misunderstand me. I don't mean that we should relax protection of

labour. But each time we introduce new legislation, we must ensure that it stands up to the Lisbon test: does the legislation create barriers to growth and employment? We must not with the one hand use the Lisbon Strategy to secure growth and employment, while at the same time creating barriers with the other hand.

When EU politicians consider new regulations they should ask themselves: are these rules necessary? Do they improve EU competitiveness?

Even though we neither can nor should copy each other, as inspiration I would like to tell you about what we are doing in Denmark, and about the so-called Danish flexicurity.

I would like to talk about how we are using the good times to make room in the labour market for those who would otherwise have a very weak attachment to the labour market – immigrants, the elderly, the disabled and so on.

Specifically I would like to talk about:

1) Firstly, what is Danish flexicurity?

2) And secondly why is flexicurity important?

1. What is flexicurity?

Some claim that Denmark lacks raw materials. If only we had a little more of the oil in the North Sea! But this is not true; on the contrary. Denmark has the best raw materials in the world – its workforce. Our workers are flexible, and not afraid to change jobs. In fact they change jobs more than 800,000 times every year. This means that one-third of the workforce change job every year. This is unique and a huge advantage for enterprises.

Much of the explanation for this lies in the Danish social safety net and the flexible rules for hiring and firing personnel. This is known as flexicurity, perhaps not by the man in the street but at least by researchers.

Danish flexicurity is often described as a combination of social security and a high degree of flexibility. This does not cover everything. Danish flexicurity can probably be better described as an equal-sided triangle - a golden triangle as we like to call it.

In the first corner of the triangle is the flexible labour market. Danish employers can more or less hire and fire at will, without long periods of notice and without

restrictions.

In the second corner is the high degree of security. The unemployed in Denmark are entitled to unemployment benefits which, in an international context are very generous. And for those without unemployment insurance, social benefits are reasonably high.

And in the third corner is an active employment policy which ensures that the unemployed are available for work. This policy also ensures that the unemployed are retrained and their qualifications are upgraded so that they are better able to match the jobs which are available.

Many ask how this system with such generous benefits and flexible rules can actually work. My reply is that it is like the bumble bee.

Science says that it is impossible for the bumble bee to fly, but the bumble bee doesn't know this. It flaunts the laws of physics and flies anyway.

The same applies to the organisation of the Danish labour market over the past hundred years. Theoretically it shouldn't work. High benefits reduce the incentive to work, and flexible redundancy rules allow enterprises to utilise this tool with impunity.

But, paradoxically it works! Where many European countries have been hard hit by the ups and downs of the economic cycle, Denmark has flown through the storms of economic downturns maintaining relatively high employment and low unemployment.

But why does it work in Denmark? Why does the bumble bee stay in the air?

The crucial thing is the interplay between the flexible labour market, the high degree of security, and the active employment policy. For example, benefits must not be so generous that it no longer pays to work – the corner with high security would then pull the triangle out of shape. And if the active labour market policy is too loose, fewer of the unemployed are available for work and again the triangle would lose its shape.

Look at an expensive stereo system. It will only sound good if the treble, bass and balance are adjusted correctly in relation to each other. The same applies to Danish flexicurity. The corners of the triangle must be adjusted to maintain the shape and avoid distortion.

In Denmark, this flexibility applies right down to individual enterprise level. It is connected to the organisation of the Danish labour market.

An important characteristic is the strong and representative labour market organisations. On paper, three out of four wage earners are covered by a collective agreement, and these collective agreements set the standard for the rest of the labour market.

The social partners take much of the responsibility for tackling issues which, in other countries are left to legislation. Therefore there is no statutory minimum wage in Denmark; no general legislation to protect from redundancy; and salaries are set in decentralised negotiations at individual enterprises.

One example is that in recent years industry has established a number of agreements on longer working hours than the normal 37 hours. In this way the Danish system displays flexibility to adapt to the competition challenging the individual enterprise. It is no coincidence that these agreements have been set up in sectors facing particularly fierce competition.

The greatest success for the collective-agreement system in recent years is that through the 1990s the partners agreed on supplementary pension schemes in addition to the statutory state pension. Now Denmark has a pension system which can cope with demographic changes in the population because all wage-earners are saving a pension from when they are very young.

This may all sound very idyllic, but of course the partners also disagree at the general collective agreement negotiations, which usually take place every three

years. But the social partners have already accepted a great deal of responsibility by making modest wage demands in order to avoid too high pressure on inflation.

The historical roots, combined with broad political acceptance make the system work; despite the innate conflict in the system between liberal redundancy rules on the one hand and a strong social safety net on the other.

2. Why is flexicurity important?

But why are we discussing flexicurity? What does it answer?

As I mentioned in my introduction, Europe is facing certain challenges: From the outside, globalisation is placing new demands on enterprises' competitiveness, staff competences, and labour market flexibility. And internally, an aging population is putting pressure on the public purse.

In order to equip Denmark for the future – and to create new jobs to replace those moving away, Denmark is concentrating on several areas.

Firstly research and innovation. We have set up a high-technology research fund of more than two billion Euros. But this doesn't mean that Danish workers are to sit and peer into microscopes. It is recognized that knowledge is the way forward to create new workplaces. We cannot and should not try to compete on pay, but rather on knowledge.

The Research Fund's resources are to be spent on developing enterprises which live on knowledge. And these enterprises will themselves attract other jobs – they all need their walls painted and food in the canteen, gutters need cleaning and burglar alarms must be installed.

Secondly, Denmark is focusing on a well-educated population. We will soon have launched reforms throughout the spectrum of the education system. Primary schools, secondary and upper-secondary schools, and universities. At the moment we are discussing reforms of adult and supplementary education with the social partners. This will ensure that the population, both the employed and unemployed, is constantly able to match the demands from enterprises.

Thirdly, Denmark is concentrating on maintaining the flexible labour market. We always have our eye on the optimal interplay between the three corners of the triangle. It is essential that enterprises can find the labour they need.

And then we must exploit the unique opportunity afforded by the good economic cycle to get more people into work. This applies to immigrants, the elderly and others with weak attachment to the labour market. And the Danish

government is encouraging enterprises to take their share of the responsibility.

Enterprises must remember that there will be a labour shortage in a few years. Fewer people will have to provide for more, and the labour market will need all the hands and heads it can get.

In order to be best equipped to cope with the challenges we are facing, the Danish government has set up a Welfare Commission and a Globalisation Council.

The welfare commission is due to report already in December with proposals for how Denmark can tackle the internal challenges of an aging population. And the globalisation council will report its recommendations in the spring on how we can prepare for the external challenge of globalisation.

And there are indications that we are on the right track for a sustainable solution. An important report by the Belgian economist Sapir shows that countries with flexible labour markets such as the Nordic countries, the Netherlands, the UK and Ireland, have been far better at managing the adjustments demanded by globalisation. Better than countries with very restrictive redundancy rules and passive labour market policies such as those in southern Europe.

The report also shows that the lack of national commitment to reform the labour market is a problem for the common EU policies. This is because the high unemployment in parts of Europe raises doubts regarding the single market and opening the EU to the rest of the world.

The answer is reforms which can carry the necessary adjustment so that countries in Europe are able to reap the fruits of globalisation. Well-functioning labour markets are mother's milk for this adjustment. A better balance between the level of benefits, assistance for job-seekers, retraining and a financial carrot to go and get a job strengthen the ability of European countries to create new products and new jobs.

This allows Europe to reap the most from the international division of labour.

Conclusion

In conclusion, I am not here to sell the Danish flexicurity model. I just want to explain how Denmark is trying to tackle the challenges of globalisation and the aging population.

We are focusing on research and innovation, a flexible labour market, and a well-educated workforce.

Above all, Denmark knows that it is possible to preserve social cohesion and still be competitive on the global market. It is not a question of either social security or competitiveness; it is more the interplay between them both.

Thank you for your attention. I wish you all a rewarding and inspiring conference!

Tags
Politisk tale, Venstre

URI
https://www.dansketaler.dk/tale/reconciling-labour-flexibility-with-social-cohesion