



Worksheet 13.3

Flexicurity in Denmark

The Danish people are a notably generous and happy group of people and for many years they have had the most extensive welfare system in the world. Danish citizens pay nearly 50% income tax, which allows its citizens to enjoy a high quality of life, free education, healthcare and lavish unemployment benefits.

Since the Global Financial Crisis in late 2008 unemployment in Denmark has more than doubled from 1.7% to 4.2% now. This is still far below levels in other parts of Europe, such as Spain with 19% unemployment. However, the Danish government is evaluating the level of unemployment benefits as its budget tightens. An unemployed worker in Denmark is entitled to an unemployment benefit which is between 70-90% of their prior salary. Currently they can receive this compensation for up to four years.

High unemployment puts two specific strains on the government's budget during a recession. There are decreased tax receipts as workers are forced out of work, but at the same time expenditure on transfer payments to the unemployed workers will increase. Therefore a swift rise in unemployment in the recent recession led to some governments, such as the United Kingdom, falling into a deep budget deficit very quickly. The opposite effect occurs in an economic boom where transfer payments fall and tax revenue increase, leading to a swelling of the budget surplus.

Policy makers in Denmark are therefore planning to trim the generous safety net provided to its workers. Read paragraphs five and six (from 'Struggling to keep its budget...' to "...a luxury we can no longer allow ourselves") from [this article](#). You can also watch [this related video](#).

Statistics from Denmark show that in the Global Financial Crisis of late 2008, 100,000 Danish people were registered as unemployed. Approximately 62% of these people found another job within two months, and only 6% of these people had been unemployed for longer than two years. This highlights the fact that Denmark has a very flexible labour market. Meaning in simple terms that workers can freely move between jobs, and can be hired and fired more easily than in comparable European nations such as Germany or Sweden. The flexibility and security of the Danish system is nicknamed 'flexicurity'. Read paragraph 14, 15 and 16 ("It's no surprise the government..." to '...and press the laid-off into retraining') which highlight the elements of the flexicurity culture.

If 30% of workers are willing to change jobs each year, this would have a positive effect on the economy. This proportion is high because workers are not scared of becoming unemployed and poor. Some would consider the opportunity cost of receiving 80% of my previous wage and an unemployed holiday a great trade off. Of course, workers also consider issues such as social dislocation and loss of skills in the decision making process and are therefore keen to get back into work as quickly as possible.



Economics

Within Denmark and the flexicurity system, workers seem prepared to accept new challenges and develop skills that are required in new jobs. This also opens up jobs to younger graduates each year. During a recession the same system allows firms to reduce their demand for labour quickly and to restructure the business to the new economic climate. The supporting welfare structures in Denmark which help unemployed people with training and job applications is an important spoke in the system. These elements are considered labour market supply side policies.

Questions

1. Describe the concept of 'social safety nets'.
2. If the Danish government continued to allow up to four years unemployment benefit, what could be the potential impacts on the supply of labour within Denmark?
3. Describe why Denmark has the one of the lowest Gini Coefficient scores in the world (0.29, CIA Factbook 2007)
4. How does labour flexibility or the Danish system of flexicurity, improve economic growth?
5. Evaluate the relative merits of Denmark having one of the highest income tax rates in the world.