

# Flexicurity, what's in a buzzword?

THE DANISH FLEXICURITY MODEL HAS PROVEN EFFECTIVE IN STRIKING A BALANCE BETWEEN PROVIDING ADEQUATE PROTECTION TO THE UNEMPLOYED AND THE IMPERATIVE FOR COMPANIES TO MAINTAIN A FLEXIBLE WORKFORCE

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European labor markets are currently grappling with challenges arising from economic stagnation and increasing borrowing costs. Consequently, firms are considering potential job reductions, and discussions about the role of the welfare state are becoming more widespread. Policymakers find themselves in a difficult position, as they must strike a balance between safeguarding workers from unemployment and not overburdening companies with excessive workforce adjustment constraints.

In the discourse concerning welfare state arrangements, the Danish Flexicurity model has garnered significant attention from European institutions and policymakers in recent decades. This attention has been prompted by its demonstrated effectiveness in achieving a balance between providing adequate protection for unemployed individuals and the imperative for firms to maintain a flexible workforce. Its ability to harmonize the demand for flexibility on the labor market's supply side with the necessity for protection on the demand side can be attributed to its three primary characteristics:

First, there is the “security pillar”, which involves establishing a substantial safety net for workers. This consists in providing a safety



mechanism for individuals transitioning from unemployment to employment. It includes a system of generous unemployment benefits designed to ensure that those facing job loss receive sufficient financial support during their transition.

Second, we have the “flexibility pillar”, which aims to characterize the labor market with high levels of flexibility on both sides. This pillar combines “numerical flexibility” (the ability for firms to hire and fire easily) with “functional flexibility,” meaning building a workforce capable of adapting to changes in the working environment and acquiring new skills. This adaptability is supported by lifelong learning programs and initiatives.

Third, there are active labor market policies (ALMPs), which serve as

incentive mechanisms to encourage unemployed individuals to find jobs or help underemployed individuals secure better employment opportunities. ALMPs can encompass various measures, such as training and re-skilling programs, support for the self-employed and entrepreneurs, and job search assistance.

Numerous economists have emphasized the success of the Danish Flexicurity model, especially during the Great Recession, when it outperformed many other European labor markets. In fact, during the year of the crisis, the Danish labor market remained more dynamic and characterized by shorter unemployment periods (Anderson, 2012). Based on this comparative success, European institutions have frequently rec-

Successfully establish welfare institutions requires have strong civic virtues or a strong sense of social responsibility

commended the adoption of Flexicurity principles in their policy guidelines. However, the implementation of these principles has encountered resistance in several European countries, particularly in Southern Europe. In many of these nations, reform efforts have primarily focused on introducing new types of employment contracts for new hires, without significantly enhancing labor market flexibility, thus falling short of fully embracing the comprehensive Flexicurity concept.

One argument presented in economic literature to explain this resistance is connected to social norms. This argument suggests that in order to successfully establish welfare institutions that offer generous and inclusive unemployment benefits, societies must have strong civic virtues or a strong sense of social responsibility (Algan y Cahuc, 2006). In situations where these social norms are less stringent, overly generous compensation programs can discourage individuals from seeking employment, leading to the failure of their implementation. Importantly, empirical research has shown that extensive unemployment compensation systems can, over time, increase people's tolerance for uncivic behaviors, such as tax evasion or making unwarranted claims for welfare benefits (Lindbeck, 1995). Consequently, this exposes welfare systems like the Flexicurity model

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to enduring challenges associated with moral hazard. However, these studies typically focus on the provision of generous unemployment benefits without considering their interaction with diverse labor market structures, particularly the presence of active labor market policies.

In a recently published study co-authored by Martin Rode and myself (Celico y Rode, 2023), we investigated whether policies that merge generous unemployment benefits with flexible labor markets and active labor market policies have a long-term impact on individuals' civic attitudes. In essence, our study aimed to assess whether reforms inspired by Flexicurity principles might diminish individuals' sense of responsibility or encourage behaviors like tax evasion or unwarranted claims for welfare benefits.

Our analysis covered a wide range of countries with diverse institutional setups spanning a 50-year period. The results suggest that when combined with flexible labor regulations and effective activation mechanisms, flexicurity reforms do not erode individuals' civic attitudes. While the findings did not point to a significant strengthening of existing social responsibility, they are encouraging in that they indicate that, when implemented alongside well-designed active labor market policies and flexible labor markets, generous

unemployment compensation systems do not undermine individuals' commitment to fulfilling their responsibilities or foster free-riding behaviors.

Concerning the feasibility of the Flexicurity model, our study challenges the notion that such designs can only thrive in countries with exceptionally high levels of collective responsibility. However, it remains puzzling why several Southern European nations have faced obstacles in implementing these reforms. We suspect that collective cognitive biases contribute to the perception of these reforms as riskier than they truly are in terms of maintaining the sustainability of the welfare state system. In conclusion, the Danish Flexicurity model, encompassing its three fundamental pillars of security, flexibility, and active labor market policies, offers a valuable framework for addressing the complexities of contemporary labor markets. However, it should not be seen as a silver-bullet solution that policymakers can easily apply to tackle labor market challenges in times of crisis. Beyond social considerations, its viability is significantly influenced by concerns related to public finance considerations, and its success depends on the governments' ability to develop appropriate activation mechanisms. It can be debated whether these conditions are met in most Southern Europe countries ●

**PARA SABER MÁS:** Algan, Y. y Cahuc, P. (2006). Civic Attitudes and the Design of Labor Market Institutions: which Countries can Implement the Danish Flexicurity Model? IZA Discussion Paper Series, nº 1928; Andersen, T. M. (2012). "A Flexicurity Labour Market in the Great Recession: The Case of Denmark". *De Economist*, 160, 117-140. <https://doi.org/10.1007/s10645-011-9181-6>; Celico, A. y Rode, M. (2023). Can we all be Denmark? The Role of Civic Attitudes in Welfare State Reforms. *Empirica*. <https://doi.org/10.1007/s10663-023-09588-7>; Lindbeck, A. (1995). "Hazardous Welfare-State Dynamics". *The American Economic Review*, 85(2), 9-15. <https://www.jstor.org/stable/i337082>.