The decline of the Danish models of labour market regulation

Abstract

Almost 20 years ago the ’Danish model’ of free collective bargaining was marketed as the cornerstone of labour market regulation in Denmark, and around 10 years later the Danish ‘flexicurity model’ became fashionable. Both ‘models’ found extensive support from governments, employers’ organisations and trade unions, and the research community has departed from these models in its analyses of the Danish labour market. The article traces the basic origins of the models and provides a critical analysis of the two models and discusses the impact from recent developments that influence some of the structures and institutions that constitute the models. The main conclusions are, first, that it is still reasonable to identify the model of collective bargaining despite the fact that considerable changes have taken place in the balance between the state (also influenced by EU regulation), capital and labour. Secondly, it is argued that the balance between flexibility and social security in the flexicurity model now has changed so much in favour of flexibility that the model should be termed flexinsecurity.

Introduction

At conferences during the 1980’s one could hear Swedish industrial relations researchers speak proudly about ’the Swedish model’ as a model that was beneficial to the Swedish economy as well as Swedish workers (Hedborg og Meidner 1984; Elvander 1988). However, when the Swedish employers’ confederation later in the decade began to subscribe to the notion of de-regulation and broke off the hitherto close cooperation with the trade union movement at national level, the concept of a Swedish model seemed to disappear. Or, perhaps it jumped over on the other side of the narrow strait separating Sweden and Denmark, for at about the same time Danish researchers started to talk about ’the Danish model’ – and they even commented the situation in the two countries like this:”The Swedish model seems to be dismantled during these years, whilst the Danish model continues to exist” (Due et al, 1993: 14, our translation). It seems that Due and colleagues based their assessment on the fact that, whilst the bipartite elements of the Swedish system had been weakened quite radically, the conditions in Denmark displayed a strong continuity, going back to the great compromise (Septemberforliget) in 1899, when employer organisations and trade unions recognized each other as legitimate bargaining agents and thus set the ground for an industrial relations system which is very much based on collective bargaining between organized
However, this notion of Danish industrial relations as strongly characterised by regulation based on collective bargaining is not the only concept of a specific Danish model. About a decade after the bargaining model was conceptualized as the Danish model, Denmark increasingly received attention among researchers and policymakers because of its so-called flexicurity model. The content of the flexicurity model goes beyond the bargaining model. It comprises a combination of elements from collective bargaining on the one hand and employment and welfare policies on the other (Bredgaard et al 2007). While the bargaining model is first and foremost valued as an institution that helps to create and distribute wealth in the economy in an efficient as well as harmonious way (through cooperation between employers and unions and workers), the flexicurity model has in particular been praised for its ability to simultaneously strengthen the productivity and competitiveness of the enterprises and total employment in society. Regarding both models the conceptualisations developed contain more or less explicit assumptions about the models functioning in ways that serve all parties involved well: employers, employees and society as a whole are profiting from the models, we are told. However, the character and scope of exchanges (Bevort et al 1992) at play varies from one model to the other, with especially the flexicurity model involving many elements of exchange between the parties, the central one being that society grants workers security while workers grants companies flexibility. Due to the fact that two varieties exist of what is in both cases often termed the Danish model in industrial relations discourses, we have chosen to make the difference between them clear by talking about the Danish models in pluralis in this article. Thereby is marked, firstly, that synchronically we are addressing two different model constructions and fields of research, and, secondly, an interest also in diacronically to see the models as historical phenomena and to study how they change over time. Perhaps recent years have seen so radical changes in Denmark that the same has happened as what happened in Sweden about 20 years ago – that a model simply has disappeared? More precisely, we want with this article to demonstrate whether it still makes sense to talk of the Danish bargaining model and the Danish flexicurity model at a time when also Denmark for quite some years have been strongly influenced by change towards a neo-liberal model of labour market regulation (Standing 1999).

Theoretically, the article builds on the assumption that the regulation of working life in a capitalist society can be conceived as a system that is reproduced and upheld over time through the behaviour of the actors, and in which a distribution of values between the actors involved is taking place, a classical work within this field of theory being Dunlop’s *The System of Industrial Relations* (Dunlop 1958). Contrary to the harmony-orientated systems theory a Marxist approach emphasises that the distribution of power between employers and workers is structurally assymetrical in favour of employers, and that capital and labour have fundamentally conflicting interests (see for instance Hyman 1975). In our view, a dual theoretical grip, including systems theory as well as power- and conflict theory, gives a good basis for a critical analysis of industrial relations and labour market models. A crucial question to us is whether there is a certain balance, or not, between different interests within the system: Does the system actually yield advantages to all parties, or are some interests considered at the expense of others? Is the balance changing over time? A related question is how the relative positions of strength between employers and workers develop over time: Do workers have the power, or resources, to say no to wages and working conditions that fall below certain standards – or are they in reality forced to accept what is offered by employers? Here, factors such as the business cycle, globalisation (the degree of competition in the labour market), employment and social protection policies as well as the strength of trade union organisation may


be expected to influence the relations between employers and workers (Hyman 1975; Standing 1999).

Over the years there have been many discussions concerning the actual contents of the Danish models, possible changes in them as well as possible, or real, threats against them. A specific feature of the discussions has been that the concept 'the Danish model' (whichever of them we are dealing with) tend to have gotten the status of an authoritative key, so that anything that can be argued to threaten or conflict with this model almost automatically is seen as wrong, problematic, or at least suspicious.

In the discourse the term model signals something positive, something to look up to, and something that others should learn from. When trade unionists, employers and leading politicians praise 'the Danish model', they often, explicitly or implicitly, indicate that this is simply the best way of all possible to regulate a labour market and its employment relations! Furthermore, the emphasis of this institution’s specific Danishes suggests that the Danish way of doing things are completely different from the ways followed by other countries. Thus, we see two problematic aspects of this use of the concept of the Danish model. Firstly, the worship of the concept easily leads to conservative positions when the discussion is about new challenges and possibilities in industrial relations – why change something that functions so well? Secondly, differences to the types of labour market regulation found in other countries are generally overestimated.

In the first part of the article we address these tendencies of glorification of the models. Connected to brief, ideal typical, presentations of the respective models we also bring evidence that can be said to constitute cracks in the models in the sense that it is shown that the models are not so specifically Danish or as good for all parties involved as it is generally taken for granted in the Danish discourse. Our aim here is to challenge viewpoints that rather constitute myths about Danish industrial relations than help to create a realistic picture. Our method in doing this is mainly comparative, i.e. we compare data about the Danish system with data from other European countries.

In the second main section of the article we address trends that, judged from the debates about the Danish models as well as our own opinions, significantly have influenced the models through the last decades. We focus on 1) regulatory initiatives from the European Union (EU), 2) decentralization of the system of collective bargaining, 3) weakening of trade union density, 4) weakening of the system of unemployment insurance, and 5) changes in employment policies.

It must be pointed out that the construction of both models was based on conditions that existed in the past, but not necessarily anymore. The bargaining model as formulated by Due et al (1993) was based on features that it had been possible to identify before and during the 1980s. The flexicurity model departed from conditions that were said to be prevalent in the latter part of the 1990s. The aim of our analyses of trends within the above mentioned five areas is to be able to assess whether it is still meaningful to talk of specifically Danish models and, if so, whether the models today are expressions of the same content as when they were constructed.

As already mentioned the article has two main sections. In the first one we present and discuss critically the key features of the two Danish models. In the second one we identify and discuss changes that we judge to be of central relevance to the models. Finally, in the conclusion we assess whether it is still meaningful to use ‘the Danish model’ as a concept and whether, in particular, the
two models hold as adequate representations of Danish industrial relations and labour market regulation.

The Danish models
In this first main section the two Danish models are presented in ideal-typical form. At the same time we aim at identifying features of the models that can be seen as debatable - do they convey realistic pictures of Danish industrial relations – or rather idealistic ones?

The bargaining model
In the bargaining model the emphasis is, as already mentioned, on the great importance of collective bargaining as a regulation method in Danish industrial relations; key features include (Due et al 1993, Jensen 2007, Kristiansen 2004):

- The employer organisations and trade unions themselves determine the rules regulating collective bargaining.
- Collective agreements (those dealing with procedures such as the Main Agreement (Hovedaftalen) and agreements on cooperation committees as well as those dealing with pay and working conditions) cover a large share of total labour market regulation. Some issues which in other countries are typically regulated through legislation – for instance minimum pay and employment security – are exclusively, or mainly, regulated by collective agreements in Denmark. On the whole legislation plays a limited role, and for instance the laws regulating the labour court and the arbitration council are framed in ways that mainly serve to support the autonomous regulation undertaken jointly by employer organisations and trade unions.
- Through many decades there has been a high degree of consensus between trade unions, employer organisations and the main political parties that the stateshould intervene as little as possible through legislation. In areas where there actually is legislation, such as occupational health and safety, the labour market parties have had the opportunity to strongly influence the contents of the legislation.
- The strong element of bipartite regulation is supported by relatively high membership rates for unions as well as employer organisations. Furthermore, the parties have traditionally been strengthened by the fact that employer organisations as well as the trade union movement are unity organisations which – contrary to the situation in many other countries – have not been divided on religious or political grounds. As will be seen below recent years have seen some divisions the trade union side, however.
- The bargaining model also includes collective agreements that regulate the role of shop stewards and their rights vis-avis management as well as a system of cooperation committees that stretches from workplace to company group level. Cooperation is seen by both parties as important for the fulfillment of employer and worker interests alike.
- The right to strike is shaped in ways that support the bargaining system. There is a peace obligation as long as a collective agreement is in force, and strikes (and lock outs) can only be applied when agreements are being renewed or in attempts to achieve collective agreements in areas not hitherto covered. It is the right to strike and the readiness of unions to use it that ultimately guarantees a certain balance in the model vis-a-vis the power of employers.

The bargaining model can be traced back to the so-called September compromise from 1899 which marked the end of a long and bitter confrontation between unions and employers. Over the years trust and respect between the parties have built up to an extent that the bargaining model can be said
to be anchored to a joint ideology (Dunlop 1958). Both sides believe that this way of regulating labour market and working life is better than for instance a system based on detailed legislation or one that leaves it up to the employers to unilaterally determine the rules of the game.

After this presentation of the main features of the bargaining model it is time to discuss whether every one of the purported features are really specific for the Danish system, or, whether they perhaps express myths rather than reality. One key proposition is that the Danish model secures a high degree of collective bargaining coverage. As can be seen from figure 1 which shows collective bargaining coverage in EU member states, this is not unambiguously the case. Although Denmark is placed among the countries at the upper end it is close to the average for EU-15 and is superseded by seven countries.

Figure 1: Share of wage earners covered by collective agreements in EU member states

![Figure 1](image)

Source: European Commission 2011.

The high figures for Belgium, France, Austria and other countries are due to the fact that these countries have provisions that extend the coverage of collective agreements to areas not directly covered by the bargaining agents, in some cases more or less to the whole labour force. For instance in Spain it also plays a role that the works councils have a mandate to conduct collective bargaining at workplace level.

Another proposition about the Danish model, connected to its cooperative character, is that the level of conflict is low in Denmark. However, if we compare with other countries we see a relatively high level of conflict in Denmark, see Table 1.

Table 1: Strikes in selected countries: number of working days lost per year per 1000 employees

<table>
<thead>
<tr>
<th>Decade</th>
<th>Denmark</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Sweden</th>
<th>Netherl.</th>
<th>UK</th>
<th>USA</th>
</tr>
</thead>
</table>

5
Across a general and strong trend of diminished strike activity Denmark found itself in a middle position during the 1970s and '80s, whereas Denmark moved to a position at the top in the 1990s and a position near the top in the '00s. It can be seen that Germany and the Netherlands through all the decades have had a clearly lower strike level than Denmark, so instead of a conflict-free model, the Danish model appear to have strikes as an inherent element.

An additional feature of the Danish model which merits to be mentioned here is the high trade union density. In the literature the high union membership rate has often been linked to, if not explained by, the important role of the bargaining system (see for instance Due et al 1993). Undoubtedly the bargaining system plays a role, but there is strong evidence that suggests that an even more important factor is the close connection between trade unions and unemployment benefit funds. In Denmark the so-called Gent system was introduced; in this system unemployment insurance is administered by the trade unions, which means that unions and unemployment funds historically were seen by workers as one and the same thing. The unemployment funds are in charge of key elements of social security, notably unemployment benefit and the early retirement scheme (in force since the late 1970s). Relatively few countries have systems that are comparable to the Danish system (the Gent system). Table 2 demonstrates that it is exactly in these countries - Denmark, Finland and Sweden – that we find the highest level of trade density.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>53.9</td>
<td>55.7</td>
<td>49.5</td>
<td>52.9</td>
<td>50.6</td>
</tr>
<tr>
<td>Denmark</td>
<td>75.3</td>
<td>77.0</td>
<td>74.2</td>
<td>71.7</td>
<td>68.5</td>
</tr>
<tr>
<td>Finland</td>
<td>72.5</td>
<td>80.4</td>
<td>75.0</td>
<td>72.4</td>
<td>70.0</td>
</tr>
<tr>
<td>France</td>
<td>10.3</td>
<td>8.9</td>
<td>8.1</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Germany</td>
<td>31.2</td>
<td>29.2</td>
<td>24.6</td>
<td>21.6</td>
<td>18.6</td>
</tr>
<tr>
<td>Italy</td>
<td>38.8</td>
<td>38.1</td>
<td>34.8</td>
<td>33.6</td>
<td>35.5</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>24.3</td>
<td>25.7</td>
<td>22.9</td>
<td>21.0</td>
<td>18.6</td>
</tr>
<tr>
<td>Norway</td>
<td>58.5</td>
<td>57.3</td>
<td>54.4</td>
<td>54.9</td>
<td>54.8</td>
</tr>
<tr>
<td>Portugal</td>
<td>28.0</td>
<td>25.4</td>
<td>21.6</td>
<td>21.2</td>
<td>19.3</td>
</tr>
<tr>
<td>Spain</td>
<td>12.5</td>
<td>16.3</td>
<td>16.7</td>
<td>15.0</td>
<td>15.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>80.0</td>
<td>83.1</td>
<td>79.1</td>
<td>76.5</td>
<td>68.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>38.2</td>
<td>33.1</td>
<td>30.2</td>
<td>28.4</td>
<td>26.4</td>
</tr>
</tbody>
</table>

Kilde: OECD.stat

The flexicurity model

'Flexicurity' is a concept, that obtained much attention among European Union policy makers in the in the first decade of the new millenium. Flexicurity has been advocated as an instrument that can further the goals of economic growth and employment growth in an integrated way. The concept
connects two other concepts, namely 'flexibility' and 'security', and suggests a state of conditions where companies can get, deploy and get rid of employees corresponding to their needs (the flexibility element) and where workers are guaranteed a decent living standard in case of unemployment and training that may help them get into a new job (the security part). Flexicurity suits well into the EU aims of creating a Europe, which at the same time has an efficient economy and a social model that guarantees citizens and workers social security and participation, thus securing a certain balance between financial and social goals and between employer and employee interests.

As researchers began to study different national systems of employment regulation from a flexicurity perspective, they found Denmark to be close to the ideal flexicurity system (Auer 2000; Ganssmann 2000), with both flexibility for the companies and a basic level of security for workers. Delegations from the EU and individual member states went to Denmark to study the conditions, and employment researchers, politicians and people from the 'social partners’ praised the Danish flexicurity model (Beskæftigelsesministeriet 2005, Bredgaard et al 2007).

In brief, the Danish flexicurity model consists of the bargaining model plus something more, namely employment policies in the form of social security in the face of unemployment and public initiatives aimed at training and retraining the labour force and activating the unemployed. In the following we list the features that are central to the Danish flexicurity model. Firstly, the bargaining model is shaped in way that grants companies a relatively high degree of flexibility in relation to how they can utilize labour power. Numerical flexibility (personnel turnover) can be high because the collective agreements do not contain strong protections against dismissals: notice periods are short and redundancy payment is almost non-existing. Employers can thus hire workers without risking high expenses if these workers are later to be dismissed. Temporary flexibility (flexible working time) is made possible by the sector-level collective agreements that generally stipulate that it is allowed to make agreements at the workplace level regarding flexible working hours and variations in the length of the working week. And flexibility in the work situation itself (functional flexibility) can be achieved because trade unions are generally positive towards doing away with, or at least soften, traditional barriers between occupations and jobs.

Secondly, the state’s part of regulation also contributes to flexibility. This occurs in particular through training- and employment policies which lead to an ongoing up-skilling and re-skilling of workers, very much in line with the needs expressed by companies and employer organisations. The active labour market policies provide services to the unemployed so that they are better equipped to get into new jobs, and services to companies so that they, if at all possible, can be offered the type of labour power they need.

Thirdly, one can say that the welfare state compensates for problems that are created by the bargaining model, or at least not solved by the labour market parties themselves. The low level of protection against dismissals found in the bargaining model is to some extent compensated by the legislation on unemployment benefit, the early retirement scheme etc. Compared to most other countries Danish legislation has traditionally secured the unemployed a relatively high and secure income. At the same time employment policies provide help to job seekers. In other words, the low level of job security in the Danish system is compensated by relatively high degrees of employment security and economic security (cf. Standing 1999 who distinguishes between a number of different forms of (in)security in relation to working life).
In total, the Danish flexicurity model, so the story says, means that companies have a high degree of flexibility – primarily due to features inherent in the bargaining model, but also due to a massive public intervention in social security and training. At the same time workers enjoy a relatively high degree of socio-economic security – not because of security in the job, but due to a comprehensive public interventions, in particular the unemployment benefit system, the education system and active labour market policies. The model grants much autonomy to employers and workers and their respective organisations, while it is the state that pays for the services provided. Where the bargaining model at its core is a bipartite model, the flexicurity model in essence is a tripartite model. The state is an important actor, not least in financing the costs of the policies that increases flexibility, whereas the labour market parties enjoy great influence on the shaping and administration of the rules that regulate working life. The main features of the model are shown in Figure 3.

*Figure 3: The flexicurity model*

![Diagram of the flexicurity model]

Just as the bargaining model the flexicurity model may not be as good as is promised by its worshippers. One thing is the high public expenses attached to it (based on a relatively high tax level, which in other contexts is heavily criticised by employers and their organisations). For workers the low level of job security is clearly negative. Insecurity makes it difficult for workers to experience their working life in a long term perspective and to believe in the future. (cf. Standing 2011). As an alternative to the usual positive assessment of the flexicurity model we attempt in Table 4 to point out not just strengths but also weaknesses connected to this model.

*Table 3: Strengths and weaknesses in the Danish flexicurity model*

<table>
<thead>
<tr>
<th>Actors</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td>Helps companies to be efficient, innovative and competitive</td>
<td>Relatively high wages (partly due to high income tax needed to pay for active labour market policies etc.</td>
</tr>
<tr>
<td>Workers</td>
<td>Relatively high pay and high level of employment. Publicly funded training</td>
<td>Low job security. Difficulties regarding life and career planning</td>
</tr>
</tbody>
</table>
Changes affecting the Danish models
Without anticipating a conclusion on the death or imminent death of the Danish models it is obvious that the recent many years of neo-liberalist ideological and political currents have weakened the collectively based solidarity among workers and furthered individualist relations in society and a reduction of the social responsibility of the welfare state. According to this ideology it is first and foremost the market forces and competition that shall regulate labour and employment relations. Collectively based regulations like collective agreements and legislation on social security must be sparse in order not to hamper free competition in the market and the individual must be allowed to follow his own desires and successes (Standing 1999).

We shall here deal with some developments that have flavoured the last two decades and that challenge and tendentially undermine the Danish models. When we apply the term 'undermine' we have already said that neither the collective bargaining model nor the flexicurity model have been strengthened in recent years. The changes have rather weakened the models, but are they still there? Can we still consider regulation of the Danish labour market as characterised by the two models? If profound changes in the main features mentioned above have taken place the models have evaporated, but if most important structures are still there we can still meaningfully continue to identify the existence of the models. Such important structures do not only include the institutions and typical patterns of behaviour but an important issue is also the balance of power between labour and capital: if the interests and voice of labour is radically constrained in favour of capital the models are challenged and undermined.

We shall here deal with five recent developments, namely 1. the effects of EU regulation, 2. decentralisation of collective bargaining, 3. declining trade union membership, 4. the cuts in unemployment insurance, and 5. the declining ambitions of employment policy.

The effects of EU regulation on Danish employment relations
A basic principle in the EU has always been to improve competition in the internal market and protect it against external competition. When this principle was strengthened during the 1980s and the single European act was supplemented by political and economic reforms during the 1990s a number of labour market reforms were initiated, first and foremost by a lot of EU directives which should be implemented in the member states via national legislation. The directives were considered necessary to create more common rules when the free movement of capital and labour was strengthened. In addition they should reduce the existing differences between the countries in social protection of workers (Hoffmann et al 2003).
In case wage level and social rights differ too much between the countries, there will be a unfair competition between the countries and the free movement of labour will result in 'social dumping'. If there exist a common European regulation at a sufficiently high level of the basic conditions competition will not result in a downward spiral in the standards of the working conditions.

Although many – including major parts of the trade unions – were sceptical to the liberalist ideology that dominates the EU, a positive development in employment and wages took place from the mid-1990s till the outbreak of the crisis in 2008. And despite the scepticism towards the actual EU directives initially was significant because of fear that the Danish level should be lowered and not least that the Danish model of collective bargaining would be substituted by legislation, it is obvious now that the EU directives have not lowered the standards in the Danish labour market and that the collective bargaining system – despite more legislation – has maintained its key importance in the regulation of the labour market.

The working time directive and the part-time directive are examples on EU regulation which have had direct consequences on issues that entirely were regulated by collective bargaining in Denmark. The posted workers directive and the so-called service directive that examples on directives that directly regulate the level of competition that follows from the free movement of labour. Other directives that regulate internal matters in international companies such as works councils and employee representation in company boards do not affect competition and national legislation.

Although EU directives may affect the Danish bargaining model the most serious challenge to the model is the ruling of the European Court. The decision in 2006 on the freedom to organise or not was the decisive farewell to closed shops in Denmark. Conservative-liberalist governments had during many years tried to get rid of closed shops but not succeeded. Many trade unionists saw the ruling of the Court as a heavy blow to the Danish Model, and to some extent it will weaken the possibilities for trade unions to organise workers in difficult areas, but only an estimated 200,000 workers were covered by a closed shop agreement when it became illegal.

The Laval case from 2007 and the related Viking and Rüffert cases may have more serious implications (Bücker & Warneck 2010). The Court demanded that companies should be able to know the expected wage level in an area, but in Denmark (and Sweden) there is no minimum wage if there is no collective agreement. According to the bargaining model the wages will be set by collective bargaining by applying procedures that may include an industrial conflict. In 2008 a legislation was passed in Denmark that industrial action was legal provided that the foreign employer was informed about the normal level of pay. Apart from the uncertainty on how clear such information must be in a decentralised and individualised wages system, there is from a juridical point of view no difference in procedures for Danish and foreign employers, but trade unions are fearing a possible future case on this issue.

The Laval case is strengthened the already existing tendency that foreign companies and workers are working in Denmark and that this takes place outside the framework of the Danish model (Hansen & Hansen 2009).

The EU membership has from the start in 1973 furthered the debate on social dumping and this problem has increased in intensity during the present crisis. Social dumping happens typically concerning issues not covered by legislation but either covered by collective agreements or not
covered. In case the foreign worker is employed in a Danish company that is part of a collective agreement, this agreement will be respected and although the foreign worker is paid lower wages than the Danish colleagues – because the agreement contains local and individualised pay – this does not mean social dumping. If the company does not have a collective agreement, some key elements as wages and working time are not regulated (apart from the EU working time directive) and will be negotiated directly between the employer and the worker. In other words, such cases are open for social dumping. A trade union can intervene by demanding a collective agreement and, in case this cannot be obtained, proceed with legal collective action which may include picketing involving other unions.

A foreign company providing services in Denmark with its normally employed workers is subject to the legislation based on the directive on posted workers. In principle, the worker shall be paid as Danish workers within the same area. The problem is that the directive only secures a minimum pay and that it is written from the assumption that collective agreements stipulate a general level of pay or there exist other general regulations of pay that set the level of pay in a given area. Although such companies have to register and follow the rules, underpayment can easily happen: the state has formally the responsibility to control if rules are respected, but in reality the trade unions are the main controllers.

The relatively few reports available on wages and working conditions among migrant workers show that the biggest differences between Danes and migrant workers can be found in foreign companies with posted workers. The migrant workers are in general lower paid than the Danes, their working environment is poorer, they work longer hours, the intensity of work is higher and a number of other living conditions are worse, and they are to a much lower degree member of trade unions and covered by collective agreements (Hansen & Hansen 2009, Arnholtz & Hansen 2011, Pedersen & Thomsen 2011).

It is a bit uncertain how many foreign workers there are in Denmark, but according to national databases the number of persons who stay in Denmark because they are working here has been increasing from around 40,000 in 2008 to 60,000 in 2011 despite the economic crisis. Persons from the EU amounts to more than half of these persons (jobindsats.dk).

A 100 per cent coverage of collective agreements would, however, not solve the entire problem with low pay. Most collective agreements contain some very flexible elements – not least regarding wages. Some agreements on white collar work have none paragraphs on the wage level and for most workers the wages are negotiated at the individual plant. Only 16% of employees covered by the collective agreements of the main employer organisation, the DA, are paid according to a fixed and nationally bargained wage level (‘normal pay’) where the wage level is the same for all in the industry. 62% are paid wages that are bargained at the shop level on the basis of a minimum pay system (‘minimum pay’) and 22% of the employees are covered by agreements with no fixed pay level (numbers are from 2007: DA 2010). This means that around 85% must negotiate their wages at the work place, and this is what causes the problem for a foreign employer and was a main issue in the Laval-decision: what exactly is the level of pay for a foreign worker when the directive on posted workers mentions ‘minimum pay’? In many cases (where there is a collective agreement) this would mean the level of the minimum pay system, and it is often only 50% of the actual pay.

As long as there are huge social differences between the various regions and countries in the EU and as long there are very few common regulations of the entire EU labour market, the problem of
social dumping will not be solved. In Denmark the only dedicated actor that takes up the struggle is the trade unions, but their handicap is that they also are keen defenders of the bargaining system and against legislation (LO 2011c). Various governments say they take the problem seriously, but they also have another agenda of increasing competition in the labour market and improving the competitiveness of Danish companies. The same goes for the employers associations, apart from the employers in transportation which in 2014 asked for more regulation when most of them were facing bankruptcy.

Decentralisation of collective bargaining

A solidaristic principle in collective bargaining is achieved by a centralised bargaining structure where the same rules and standards apply to everybody. A centralised bargaining structure most effectively reduces competition among the sellers and buyers of labour. Workers shall not compete on wages and working conditions and employers must compete on other things, for instance investment in new machinery and the qualifications of labour. At a more decentralised and individualised bargaining system the price of labour is more dependent on the market and the changing conditions of the business cycle.

The decentralisation of collective bargaining started in the early 1980s when single unions and bargaining cartels became bargainers instead of the LO and the member organisations of the employers’ main organisation, the DA, became bargaining agents. Comprehensive organisational changes in the DA during the early 1990s completed these “decentralised” bargaining structures and the agreements in the private sector have ever since been bargained in 4-5 industries covering a number of agreements. The bargaining system in the public sector is divided into 3 areas, state, region and municipality, with bargaining cartels.

Apart from a few company level agreements, this bargaining structure was still based on national coverage and only moved the bargaining from the level of main organisations to national trade union level. The most radical change in the direction of decentralisation took off during the early 1990s when the wage system was changed into wages bargained at the individual work place. This flexible system covers now around 85 per cent of the agreements and means that the wage level bargained at national level is only minimum standards for the wages bargained at local level – often several times during the period of agreement.

In the public sector decentralisation of wage setting was introduced in the late 1980s with the so-called ‘local wage’ system and especially with the introduction of a more individualised system, ‘New wage’, in 1998. These wage systems should supplement the modernisation programme for the public sector that started up during the 1980s. After a decade of significant scepticism among public sector employees and their unions, these decentralised and individualised wage systems broadly accepted and have increased competition and the importance of wages as motivational factors among public sector employees.

There is no doubt that the decentralisation of wage setting has been a significant tendency during the past 20-25 years, but it is also evident that this decentralisation has not been completely and thoroughly implemented in a way where wages are completely individualised and work place decided. This is due to opposition both among trade unions and from employers’ organisations to control the general level of wages in accordance to competition in the globalised economy.
The present system has been termed 'centralised decentralisation' (Due et al 2006) or 'coherent fragmentation' (Lind 2004) to describe that it is an exaggeration to label collective bargaining in Denmark as decentralised. Especially in an international comparison such a terming would be imprecise.

None the less, this development has resulted in a change of power in favour of the employers as the local wage settings are not subject to industrial action (Kristiansen 2004). Local conditions derived from economic factors and the company’s dependency on the capacity of the individual employee have become more decisive for the pay level. In addition it has strengthened the identification of the employee to the work place and its specific conditions and interests and the willingness of the employee to subordinate his demands to the capacity of the company.

**Decreasing membership of trade unions**

Mostly trade unions have to adapt to the changing conditions from a changing work life, employers and political rulers. It could be assumed that the unions experienced a strengthened membership in a period where capitalism is strengthened by liberalist reforms and the uncertainty of workers are increasing. Like elsewhere this is not the case in Denmark. Especially the trade unions from the LO main organisation experience a significant loss of members.

**Table 4: Members of trade unions in Denmark (000)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour force*</td>
<td></td>
<td>2027</td>
<td>2384</td>
<td>2669</td>
<td>2648</td>
<td>2659</td>
<td>2672</td>
<td>2656</td>
<td>2667</td>
<td>2723</td>
<td>2704</td>
<td>2591</td>
<td></td>
</tr>
<tr>
<td>LO</td>
<td></td>
<td>894</td>
<td>1250</td>
<td>1423</td>
<td>1510</td>
<td>1459</td>
<td>1433</td>
<td>1386</td>
<td>1339</td>
<td>1251</td>
<td>1201</td>
<td>1123</td>
<td></td>
</tr>
<tr>
<td>FTF</td>
<td></td>
<td>156</td>
<td>277</td>
<td>325</td>
<td>332</td>
<td>350</td>
<td>356</td>
<td>359</td>
<td>363</td>
<td>359</td>
<td>358</td>
<td>353</td>
<td></td>
</tr>
<tr>
<td>LH (Organisation for Managerial Staff)</td>
<td>-</td>
<td>-</td>
<td>71</td>
<td>75</td>
<td>80</td>
<td>76</td>
<td>76</td>
<td>74</td>
<td>76</td>
<td>83</td>
<td>91</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC</td>
<td></td>
<td>-</td>
<td>70</td>
<td>103</td>
<td>132</td>
<td>150</td>
<td>161</td>
<td>165</td>
<td>166</td>
<td>174</td>
<td>137</td>
<td>142</td>
<td></td>
</tr>
<tr>
<td>Outside LO, FTF, LH, AC</td>
<td></td>
<td>111</td>
<td>197</td>
<td>130</td>
<td>114</td>
<td>123</td>
<td>125</td>
<td>140</td>
<td>172</td>
<td>202</td>
<td>271</td>
<td>344</td>
<td></td>
</tr>
<tr>
<td>All trade unions</td>
<td></td>
<td>1162</td>
<td>1794</td>
<td>2051</td>
<td>2163</td>
<td>2162</td>
<td>2151</td>
<td>2127</td>
<td>2114</td>
<td>2062</td>
<td>2050</td>
<td>2053</td>
<td></td>
</tr>
<tr>
<td>Per cent of labour force</td>
<td></td>
<td>57</td>
<td>75</td>
<td>77</td>
<td>81</td>
<td>81</td>
<td>81</td>
<td>80</td>
<td>79</td>
<td>76</td>
<td>76</td>
<td>79</td>
<td></td>
</tr>
</tbody>
</table>

Remarks: *self-employed not included. Note: Danmarks Frie Fagforeninger (The Free Trade Union in Denmark) not included. Engineers left the AC in 2009 (43,000 members in 2009).

Source: Danmarks Statistik

*The confederations’ share of total membership (per cent)*
The total membership rate for all unions peaked during the 1990s at above 80 per cent and is now lower. The unions from the FTF and AC main organisations and especially unions outside main organisations have had an increasing membership, but the LO has been severely weakened. The LO is still the absolutely most important main organisation but it has lost more than 400,000 members since the mid-1990s.

The main part of this membership loss is due to changing employment structures. Fewer people are employed in the industries and professions that typically are basis for LO member unions. This development can especially be seen from the growth of FTF and AC who primary organise employees from the service sector and with a higher educational level.

Another explanation is an increased intake in organisations outside the main organisations such as the Christian Trade Union (Kristelig Fagforening) and the organisations organised in the Professional House (Det Faglige Hus) such as FK/TS, Fagforeningen Danmark, 2B Beds tog Billigt. Since 2002 these unions have got more than 100,000 new members – or customers as they call it. Some of these new members chose these ‘yellow’ unions from ideological reasons (political, religious), but the main reason for the membership growth is economic because the fee is relatively low in these organisations: most of them do not bargain collective agreements and offer less services for their members.

The banning of closed shops in 2006 is another reason for LO membership losses to the ’yellow’ unions, but a main reason is probably the changes in the unemployment insurance system.

**Unemployment and employment policy**

As mentioned earlier the special construction of the unemployment insurance in Denmark (and Sweden and Finland), the Ghent system, is of high importance to trade union membership rates (Lind 2009). If membership of unemployment funds are made less attractive – as is the case during the past many years – fewer people will join the insurance and the trade unions.

The unemployment insurance has always been very important to the workers and the trade unions and in a broader perspective for the functioning of the labour market. The level of the social compensation in case of unemployment is not only important to the standard of living for the
individual unemployed but also to the competition in the labour market and the level of wages: with no legal minimum pay in Denmark the level of unemployment benefits to a high degree will be the lowest level of pay an unemployed person will accept.

At the major reforms of employment policies during the 1960s and 1970s the unemployment insurance was changed in two important aspects. Firstly, unemployment benefits were raised to 90 per cent of former wages (with a general maximum at 90 per cent of average pay) which meant that low paid workers were compensated by 90 per cent of former wages while higher paid workers had a lower compensation rate. Average compensation rate was, however, around 80 per cent during the 1970s. Secondly, the state financed excessive expenses in case of high unemployment rates (via general taxation).

During the 1970s this insurance system was expanding including more and more groups in the labour market (employers, students, soldiers, part-time employees) and the access to unemployment benefits was widened by longer periods of entitlement and weaker demands and controls on the unemployed. This changed in 1979 when the first limitations in the access to unemployment benefits were implemented. Ever since, the unemployment insurance has been made less attractive by numerous cuts that have increased the tests on the unemployed (availability), reduced the period for claiming benefits from, in principle, without limitations in the early 1980s to 2 years in 2013, and cut the level of compensation of the benefits to the former wages with more than 30 per cent since the early 1980s (LO 2006).

The so-called 'active labour market policy' was developed in the 1950s and 1960s from ideas mainly from Sweden (the Rehn-Meidner model) but was never as ambitious in Denmark as in Sweden. It was designed to support general economic policies to strengthen economic growth, combat unemployment and inflation and secure an acceptable level of social justice (redistributive policies). In theory qualificational and geographical imbalances between various segments in the labour market should be reduced by education and training of unemployed at one segment to qualify them for another segment where demand exceeded supply of labour and then caused inflation, or, in case of unemployment at one geographically segmented market, induce workers to move to a segment with excess demand.

Since the 1993 labour market reform, activation of the unemployed has been a main pivot for this ‘active labour market policy’. These activation measures have increasingly had their main legitimacy in disciplining the unemployed to take a vacant job (Møller et al 2008). In general, the tendencies in unemployment policy during the last 10-15 years have been a) to reduce the access to the unemployment benefits, b) induce more activation (job offers, training, education) on the unemployed and c) reduce temporary or permanent withdrawal from the labour market (by abolishing the leave schemes, abolishing the early retirement scheme for 50-60 years old and making the early retirement scheme less attractive). These changes have been executed with explicit reference to structural problems and 'bottlenecks' in the labour market and the fear of not having the sufficient amount of labour to secure welfare in future.

The cutbacks in the unemployment insurance and the deployment of the activation policies as a disciplining – and not qualificational - measure for the workers the employment policy has changed profoundly since the 1970s. The main intention is not to compensate workers who have lost their job, but to strengthen the incentives to take a job and increase competition in the labour market in order to reduce the wage level. Until the early 1980s the general interpretation and political
understanding of unemployment was that unemployment was due to the malfunction of the society. Since then the conviction has been strengthened that unemployment is caused by the individual himself: social security provisions shall not compensate for malfunctions of the system, but secure that the incentives of the individual to take a job are improved. Labour market flexibility is not longer achieved through social security based upon relatively high unemployment benefits and opportunities for training and education for the next job, but rather flexibility is based upon fear of unemployment and poverty.

Conclusion

The changing patterns of employment relations as described here – the weakening of trade unions, decentralisation of collective bargaining, EU regulations and migrant workers, and lower welfare ambitions in employment policies – are important factors for the increasing inequality and expanding poverty. But they are also clear indications on a changing relationship between state, capital and labour in the sense that the voluntarist and bipartite so-called ‘Danish model’ and the flexicurity model are being changed. The supporting structures and key characteristics of these modes of regulation are being weakened these years.

To put it simply: wages and other working conditions are increasingly affected by market forces and during the crisis this means lower wages and poorer working conditions. The Government is an active supporter of this development because the outcome is supposed to be better competitiveness for Danish products, and employers celebrate higher profits. The losers are the workers and their trade unions. Increasing inequality is seen as an important tool for the restructuring of competitiveness and economic growth and prosperity and welfare state provisions are cut back in order to save the welfare state!

Over the past many years the basic precondition for building and maintaining welfare and prosperity was a mutual recognition between state, capital and labour. In recent years labour is told that it just has to subordinate to the needs of capital and the state. The trade unions have always accepted this basic subordination but have been in a position where they have been able to argue for and claim a fair deal. That is not the situation now. The Government and the employers define what is necessary for recovering the crisis and the trade unions just have to accept the necessities.

Although the interests of labour at the outset are seen as endangering economic growth, the relationship between state, capital and labour has always been built upon the notions that the interests of trade unions should be acknowledged and respected as long as their demands were moderate and they accepted the prime consideration to economic growth. This basic rule is being set aside these years.

As argued above, the social structures of the two sacred cows – the voluntarist model and flexicurity – have been eroded by weakening the strongholds of the trade unions. The two models have been the ideological ground where state, capital and labour could meet and make a compromise between their specific interests. They have been the framework and the paradigms for argumentation for changes: the common ground for arguments and reason and defining the limits of claims and demands.
It seems like this is not necessary any more. From the Government’s and the employers’ point of view, the crisis is so serious that it is not affordable to include trade unions into compromises anymore. Trade unions seem to accept this because they have lost influence and power (loss of members, decentralised bargaining etc.), the two models of reference have been abandoned, and their members accept worsening conditions from fear of losing their job. And for the first time we have heard top-ministers arguing in public that cuts in social provisions for the unemployed shall be implemented in order to increase competition in the labour market in order to keep wages down. During many years the argumentation was that lower provisions were necessary to increase the incentive among the unemployed to find a job.

During the years of prosperity and low unemployment rates it is not painful to lose some strongholds on bargaining and working conditions and there are not serious consequences from cuts in social provisions for the unemployed. During the crisis it is another story.

The coverage of the collective agreements is presumably weakened in these years (LO 2011a), but not to any high degree. Concurrently a tendency to individually focussed personnel policies (HRM) can be observed at the expense of the collective bargaining system. Not especially because the two systems counteract each other (Navrbjerg 1999; Knudsen et al 2011), but because the management’s personnel policies are more visible to the employees than the bargaining system is. This is also related to the trade unions’ membership loss: when employees do not see the effects of collective bargaining but the HRM policies of management they ask themselves what is the use of the bargaining system? And they lose the incentive to join the unions.

It is true that various governments have introduced certain control systems on immigrants to avoid social dumping, but even the present government led by the Social Democrats has higher priority to increase labour market competition to keep wages stable, further economic growth and improve competitiveness. The social democratic minister of finance proclaimed in 2013 his support to the ‘competitive state’ and the dismantling of the ‘welfare state’. He is one of the architects behind the present liberalist policies but also the key person in the attack on collective agreements when he orchestrated the abandoning of collective agreements regulating the working time in schools during the collective bargaining round in 2013.

Based upon the tendencies described in this article we find that the distance between the ideal types and the reality of the two Danish models seems to close in to a situation like in the New Clothes of the Emperor: the models have nothing on! While the bargaining model still have some basic structures alive, it seems as the flexicurity model is not existing anymore when the dominant structures in employment policies are directed towards achieving flexibility by means of fear and insecurity and not by means of security.

References

Andersen, Jørgen Goul (2011): 00’erne var Danmarks tabte årti, Politiken (Analyse), 15.06.


Hansen, Jens Arnholz & Hansen, Nana Wesley (2009): *Polonia I København – et studie i arbejdsmigranters løn- og arbejdsvilkår i Storkøbenhavn*, København, FAOS.


LO (2011a): Udfordringerne for den danske model, København, LO.


LO (2011c): Rapport fra udvalget om social dumping, København, LO.


Pedersen, Louise Møller, Thomsen, Trine Lund (2011): Arbejdsmigration fra de nye EU-lande, pp.45-63 i Tidsskrift for Arbejdsliv, 13. årgang nr. 3.


Ugebrevet A4, 31.05.2010.


www.epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home