Analysis of selected aspects of the Flexicurity model as an innovative labor market approach and their potential applicability under the Slovak conditions

Beáta GAVUROVÁ, Viera PAVLIČKOVÁ

ABSTRACT

Danish Flexicurity system presents an example for other EU member countries. This complex approach can lead to a modernization of the European labor markets, an improvement of hiring candidates, a diminishing gap between employed and unemployed and consequently minimization of poverty and social exclusion. The paper focuses on significant aspects of the Flexicurity system implementation, an analysis of the development of unemployment in the Slovak Republic in comparison to Denmark and an outline of barriers of its application in the Slovak Republic.

KEYWORDS: Flexicurity, Flexibility, Social Security, Labor Market

JEL CLASSIFICATION: J40

1 INTRODUCTION

The flexibility growth on the labor market and an associated need to set an appropriate social system is an actual issue all over the world. The Flexicurity model as an innovative approach to the labor market policy presents a good example of achieving an economic growth, high employment and sound public finances in a socially balanced way. Its main aspect is a flexible labor market supported by an active labor market policy and an educational policy. Their mutual interactivity contributes to the social security as a significant national competitiveness factor. Denmark as an implementer of the Flexicurity model has managed to create a stable and flexible labor market thanks to the high rate of employment and high unemployment benefits enabling employees and employers to accept the negative aspects of the system. The security and the flexibility as the basic parameters of the Flexicurity model do not work counterproductively. An ambition of the employers is to achieve secured working contracts and motivated employees. On the other hand, employees are interested in a flexible working time, a flexible remuneration system and a flexible work organization.

The innovative ideas of the Flexicurity approach have improved Danish competitiveness significantly and the advantages are strongly evident. In March 2011, so called Euro-Plus Pact (European Council, 2011) was adopted by the EU member countries. They elaborated a concrete list of reforms necessary to be submitted in order to improve the competitiveness of the Euro zone countries. One of the goals included in the plan is to apply the Flexicurity model in practice.

2 CHARACTERISTICS OF THE FLEXICURITY MODEL

For the first time, an English word Flexicurity was used by a Dutch professor Jurjen Adriaansens in his speeches and interviews regarding a labor market model in Denmark and Netherlands. The term expressed the transition from providing the protection of the labor relations to the protection of...
employment in general. Henceforth, the term has been used for the labor market model incorporating the elements of labor market flexibility and of security of employees or people who lost their jobs. A whole concept is based on a high flexibility degree of an individual employment relationship between an employer and an employee and on a high degree of protection of a personal income received from an employer or within the social system in case of being unemployed. The system is intensely supported by the third component – an active employment policy focusing on a requalification of an individual working ability. Wilthagen (1998) considers the “Flexicurity” as a political strategy aimed at raising the labor market flexibility, work organization and employment relations on one hand, and an improvement of the social security of the endangered groups of the labour market on the other hand.

The concept of the Flexicurity should be adjusted to the specific conditions on the labor market and the associations in the production industries. The Flexicurity model enables: (European Council, 2011)
- To ensure a high level of the job security to the EU citizens – a possibility to find a job easily in each phase of their working lifetime.
- To coordinate strong flexible labor markets using the reliable systems of the social security (a priority is to achieve the goals of the Lisbon strategy: higher number of jobs and their higher quality, that will consequently leads to the social coherence and stronger European social model)
- To lessen the disparities between the employed and the unemployed
- To continue the dialogue between the social partners and involve them intensively on the European, national and local level.

Although the Flexicurity issue has been an object of an economic interest for several years, no unambiguous definition has been created. A term “Golden Triangle“ (Madsen, 2002) representing the labor market measures between the flexible employment rules, the generous social benefits (providing social support) and the strong activation and educational measures (motivating the unemployed to a job search, enabling to enhance and to change their qualification to rejoin the open labor market) is preferred.

3 APPLICABILITY OF THE FLEXICURITY SYSTEM IN THE SLOVAK REPUBLIC

Flexicurity is a modern model for the construction of employee's working position with emphasis on the social background of this position. It cannot be implemented as a standard systemic tool. Each country has its specificities resulting from the diversity of cultural, economic and structural conditions. The following chapter based on the research of Šprocha (2010) analyzes the Slovak labor market and provides the picture of the environment to be capable of evaluation of the current situation in the Slovak Republic.

3.1 Development of the labor market in the Slovak Republic

A development of the Slovak economy has always been characterized by the high unemployment rate, which was created at the era of the former Czech and Slovak Federal Republic. This is primarily a consequence of the transformational recession of the Slovak economy in 1991-1993 and of a collapse of the Czech and Slovak Federal Republic afterwards characterized by a large decline in the total employment and a significant increase of the unemployment. Number of factors affected it, of which a fall in demand (domestic and foreign) was the most important one, while the decline in a domestic demand was mostly affected by the significant growth of an inflation rate due to price liberalization. A reduction in external demand was conditioned by the dissolution of the former
CMEA markets, to which the essential part of a Slovak export was allocated.

Essential stabilizing economic policies and intensifying of the economic restructuring process since 1999 contributed to the further increase in the unemployment rate, the growth of which reached the peak in the first quarter in 2001 (19.7% representing more than 520,000 unemployed people). The unemployment rate has been gradually decreasing since then, as the substantial economic reforms implemented since 2002 contributed to its sustained decline. An inflow of foreign investments intensified the creation of new jobs. The unemployment rate decreased in 2007 to 11.0% (on average), but this was partly due to migration of labor.

In 2008, the decline of the unemployment rate continued, but in significantly slower pace. In the third quarter of 2008 it fell to 9.0% (approximately 244,000 unemployed people), the lowest level since 1997. Unemployment affects mainly those with basic and lower education (70% of the total unemployed), while the share of unemployed with university education is about 3.5%. Higher unemployment rates refers to women (in 2010 14.6%, for men 14.2%). Since 2008, the unemployment rate has risen again due to the economic crisis that has paralyzed many of Slovak production companies.

Unemployment rate trend in the Slovak Republic in comparison to Denmark as a successful implementer of the Flexicurity model is presented on the following graph (Figure 1).

**Figure 1:** Total unemployment rates in the Slovak Republic and in Denmark for the period of 1998 - 2010

![Graph showing unemployment rates](source: Author’s own graph based on the Eurostat database.

The slowing decline in unemployment dynamics between years 2007 and 2008 is related to a long-term unemployment (more than 1 year), which is a specific Slovak labor market problem. The ratio of long-term unemployed to the total number of unemployed was already high in the beginning of the independent Slovak Republic, whereas in 1993 it amounted to about 40%. Since then, however, the ratio has been increasing steadily, while rising rapidly particularly between 2005 and 2006 and exceeded 68% and 73% respectively. In 2007, it decreased to 70.9% and the decline continued in 2008.

Thus, the decline in total unemployment depends primarily on reducing the long-term

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1 CMEA is the abbreviation of The Council for Mutual Economic Assistance, a former economic organization comprising the eastern European countries belonging to the Soviet bloc. Original members were Soviet Union, Bulgaria, Romania, Czechoslovakia, Hungary and Poland.
unemployment. In this process, the active labor market policy (ALMP) should play a decisive role. Past experience has showed that the long-term unemployment may be temporarily interrupted, as a result of the active labor market policy in the form of seasonal work or temporary employment. However, after completion of ALMP actions the unemployment rate remains at high levels. A large group of the long-term unemployed becomes significantly unemployable in less developed regions. In such Slovak regions (such as Košice, Banská Bystrica, Prešov region, see Figure 2), the ratio of long-term unemployment to the total number of job seekers is approximately 60%. On the other hand, in economically advanced regions (region of Bratislava, Trenčín) a spare capacity of readily exploitable labor force have largely been exhausted, or low.

Figure 2: Map of Slovak regions

![Map of Slovak regions](image)

Source: Author’s own graph.

The situation of the long-term unemployment of both men and women in the Slovak Republic and in Denmark since 1998 is depicted in the following graph (Figure 3).

Figure 3: Long-term unemployment rates in the Slovak Republic and in Denmark for the period of 1998 - 2010

![Graph of long-term unemployment rates](image)

Source: Author’s own graph based on the Eurostat database.

Despite the reduction of labor market imbalances there are significant regional differences (in terms of unemployment rates), which are due to the low labor mobility.
The development on the Slovak labor market is partly influenced by the active labor market policy, which has been implemented mostly as a consequence of the institutional reform in 2004. Since then the so called “National projects” financed from the state budget and the European Social Fund have been realized. They mostly focus on the integration of the disadvantaged groups and disabled people into the labor market, activation of the insufficiently motivated unemployed, student internships and improvement of intermediary services.

In comparison to the most developed countries (Austria, Germany, Finland…) focusing on the education Slovak active labor market measures put the emphasis on the creation of new jobs. This fact also corresponds to the structure of expenditures connected to the labor market policy in mentioned countries. (Infostat, 2009)

### 3.2 Competitiveness of the Danish Flexicurity model in comparison to the Slovak Republic

In order to understand better how the Flexicurity should work, this chapter presents basic characteristics of the Danish model within the comparability analysis with the Slovak Republic.

The success of the Flexicurity model in Denmark is based on favorable macroeconomic conditions. Denmark is characterized by a stable economic growth and sound public finances. Table 1 compares basic macroeconomic indicators in Denmark and the Slovak Republic.

| YEAR 2010 | SLOVAK REPUBLIC | DENMARK |
|-----------|-----------------|---------|
| Real GDP growth | 4%, and 49.3% of EU GDP | 1.7%, and 172.2% of EU GDP |
| Inflation rate | 0.7% | 2.2% |
| Public deficit | 7.9% GDP | 2.7% GDP |
| Public debt | 41.0 % GDP | 43.6% GDP |

| Employment rate | SLOVAK REPUBLIC | DENMARK |
|-----------------|-----------------|---------|
| Total | 58.8% | 73.4% |
| Men | 65.2% | 75.8% |
| Women | 52.3% | 71.1% |

| Unemployment rate | SLOVAK REPUBLIC | DENMARK |
|------------------|-----------------|---------|
| Total | 14.4% | 7.4% |
| Men | 14.2% | 8.2% |
| Women | 14.6% | 6.6% |

| Long-term unemployment | SLOVAK REPUBLIC | DENMARK |
|-------------------------|-----------------|---------|
| Total | 9.2% | 1.4% |
| Men | 9.0% | 1.7% |
| Women | 9.5% | 1.1% |

Source: Eurostat.

Except for the macroeconomic conditions, the Danish labor market also has its specificities when comparing to the situation in the Slovak Republic. The following table (Table 2) and the scheme (Figure 4) present the situation on the labor markets of both analyzed countries via the Golden Triangle measures.

The principle of the Golden Triangle in Denmark is the acceptability of the high numeric flexibility if a citizen gets high unemployment benefits and if a chance of a convenient return to work is relatively high. In case some specific problems, such as insufficient qualification for the offered working positions, occur, the active labor market policy with requalification and other activities fostering the return to work are applied.
Table 2: “Golden Triangle” measures in Denmark in comparison to the Slovak Republic

| SLOVAK REPUBLIC                                      | DENMARK                                      |
|------------------------------------------------------|----------------------------------------------|
| Problematic flexible hiring of employees             | Flexible rules for hiring and dismissal of employees (= high quantitative flexibility) |
| Restrictive support system – weak social security    | Generous system of social benefits – social security |
| Activation measures – requalification as the only source of education motivation for a job search as a result of a social uncertainty | Activation and educational measures – motivation for a job search and qualification for the labor market |

Source: Páleník – Noška – Páleník (2011).

Figure 4: Principles of the Golden Triangle in the Slovak Republic and in Denmark

In order to look closer at the effects of structural reforms and macroeconomic changes realized in a Danish labor sphere on the unemployment and the wage development, we have constructed the Phillips curve depicting the relationship between the real wages growth and the unemployment rate. (Figure 5)

The Phillips curve provides the view on the Danish and the Slovak labor market from 1995 to 2009 via the unemployment rate and the wage inflation enabling to evaluate the situation on the labor market precisely and disposing of high informative value within the context of the analyzed issue. We have used yearly data to observe the long-term dynamics of the labor market development based on the Flexicurity model.
It is possible to conclude that the unemployment rate in the Slovak Republic was higher than the one in Denmark in each individual year of the whole analyzed period. Moreover, the lower levels of unemployment in Slovakia were connected to the higher wage inflation. On the contrary, a slight decrease in wages with a decrease in unemployment in Denmark can be attributed to the successful application of the Flexicurity model.

3.3 Barriers of the Flexicurity system implementation in the Slovak Republic

Within the conclusion of the feasibility of the Danish employment model under the Slovak conditions, several Slovak specificities must be emphasized. These particularities have had and will have a significant impact on the success or failure of any applied model in the near future.

The first particularity is the big regional disparities in Slovakia between Bratislava region and the Eastern part of the country (Košice and Prešov regions). A negative effect of a geographical peripherality referring to the Košice and Prešov regions (perceived as a position of a region with respect to the main growth centres, to the main infrastructural facilities, to the main product and service flow) on the establishment of the new companies, investment inflow, creation of new job opportunities etc. is evident. (Hudec – Urbančíková, 2008)

Another Slovak specificity is the above mentioned large group of the long-term unemployed people. Several sources claim, that Slovakia belongs to the worst countries among the OECD members. The reasons for the long-term unemployment are complex and refer to the economic restructuring and lack of vacancies. Among other specific causes the unwillingness of the employers to employ long-term unemployed people, a low level of working habits and abilities, high dependence of this group on social welfare or unemployment benefits, undeclared work and problems with work mobility should be mentioned. Applicants often cannot find a job because of insufficient education not fulfilling the employers’ requirements. Low qualification may even prevent a candidate from improving his qualification through requalification courses as he does not meet the demanded criteria for such seminars. In Slovakia less than 10% of the unemployed attend some of the educational courses provided by the employment offices. (IHP, 2011)

Moreover, the data from the Eurostat show more than 30% (in 1999 – 2005, 2010), resp. more than 20% (in 2006 - 2009) of young people under the age of 25 in Slovakia to be unemployed. The number is one of the highest among the EU countries. Furthermore, the unemployment among young people is an especially dangerous phenomenon. Sociologists find it risky for a young person to lose
working habits and abilities. Long-term unemployment may also bring trigger notions of failure in
the individual that diminish his perceived chances of success in the labor market and can potentially
lead to an increase of crime incidence. Social exclusion is a complex concept. However, it is
significantly connected with the unemployment and poverty.

Another serious specific is a high ratio of the Roma population to the total unemployment rate. According to the estimations, with about 8% of the Roma population the Slovak Republic belongs to the countries with the biggest Roma minority proportionally to the total population. The level of their employment rate is influenced by the insufficient education, unwillingness to participate in negative aspects of a job search. Yet the biggest problem is no working habits among the young Roma men at the age of 18-30 who have a tendency to mock a working person. A solution of the Roma employment problem is not simple. Hence, it is necessary to change the attitude to this issue and not to continue in raising the social or other financial aids.

Applying the Flexicurity system could contribute to the solution of the Roma issue and could lead to the following changes:
- A change in a system of education of the Roma population – It needs to be adjusted to foster
the Roma population (both children and adults) to gain higher qualification to be able to
participate on the labor market.
- A change in a social system – Efficient measures should be realized to motivate Roma
population to look for a job and to improve the qualification.

Trade unions also present a problem. In Slovakia the engagement in trade unions is very rare, while
80% employers and employees in Denmark participate in trade unions. Government in Denmark
tend not to intervene into the wage and working conditions regulation significantly. (The
Confederation of Danish Employers)

An inappropriate structure of university study programmes contributes to the higher unemployment
rate, too. No mechanism reflecting the needs of the economy with respect to the education policy has
been created so far. Research realized by (IHP, 2011) presents the results emphasizing the surplus of
the number of graduates in human programmes (the number has increased from 56% of all graduates
in 2003 to 63% in 2010) and the absence of technically educated labor force (the decrease from 24%
in 2003 to 18% in 2010 of all graduates). Moreover, the devaluation of the university diploma in the
past years has forced the university graduates to work on positions requiring lower qualification and
consequently contributed to their high unemployment rate. (OECD, 2010)

Moreover, income tax rate is another issue. The generous unemployment benefits and training
provisions as an essence of the Flexicurity system in Denmark are partly paid through the
progressive taxation system. The total tax cannot exceed 59% of the income, what is significantly
higher than income taxes in the Slovak Republic (flat tax rate of 19%). (tax.dk)

All these Slovak particularities would influence the implementation of the Danish Flexicurity model
in the Slovak Republic. On the other hand, some measures approach us to the appropriate model i.e.
more flexible rules for hiring and dismissal of the employees and the last novel of the Labor Code

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2 The Roma population is an important part of the population in several Central and East European countries. (Vaňo,
2001) In the Slovak Republic the unemployment within the Roma community reaches almost 100%, which is caused by
the following reasons: (IHP, 2011)

1. Insufficient education (illiteracy) connected to the lack of knowledge of the Slovak language.
2. Social system in the Slovak Republic – The unemployment benefits are provided with no value in return. This
   system forces Roma population not to work, otherwise they lose these benefits causing a drastic
decrease in their incomes that is not compensated by the minimum wage. As a consequence, they work
   illegally.
3. Roma population lives mostly in the localities in the south-east and north-east of Slovakia (the poorest
   regions) in bad conditions without energy, water, roads and basic hygiene. Moreover, these regions do not
   offer sufficient job possibilities.
(Labor Code of the Slovak Republic). Nevertheless, the realization of some points of the model is difficult to imagine considering a Slovak mentality (i.e. a generous system of financial aid, a long-term process of the educational measures implementation).

4 CONCLUSION

Each EU member country is obliged to elaborate its national Flexicurity program. Although the model in Denmark is successful, it is not possible to simply apply it for the Slovak conditions. The Flexicurity model has to be adjusted to the particular labor market. Slovakia and Denmark are the countries of the similar area and population size. However, the situation on the labor market is different. Significant disparities are in a sphere of taxation. Slovakia is known for one of the lowest income tax rate in the OECD area being under the OECD average. On the contrary, tax burden in Denmark belongs to one of the highest among OECD countries. A high unemployment rate also represents a long-term problem in Slovakia, while the unemployment of young people and the long-term unemployment prevail. Slovakia needs to create a system of the primary, secondary and tertiary education, which will be harmonized, with the needs of a labor market. This symbiosis is not possible without cooperation and participation of the government and employers. An employment relation model in Denmark is also based on a dominant position of trade unions, while in Slovakia and other post-communist countries they are not considered important. This perception leads to the low trade union organization.

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