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The Danish Model of Industrial Relations: Erosion or Renewal?

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Abstract: The Danish model represents one of the most solidly-based industrial relation (IR) systems in Europe, and is today internationally regarded as an exemplar owing to its effective combination of flexibility and security in labour-market regulation. But in an increasingly globalized world even this model has come under pressure. The pressure comes from three different directions: (1) from EU regulation; (2) from the national political system; and, (3) from the parties at enterprise level. The organized or centralized decentralization of the collective bargaining system that was seen as the answer to the increased competitive pressure of internationalization would appear to have reached its limit and to have been replaced by a trend towards multi-level regulation. Whether this trend will lead to renewal or erosion of the Danish model will be revealed over the coming years. There are signs that indicate the model’s continued robustness, but there are also signs of weakening. The outcome is not only of national interest, but also has international relevance, since Denmark can be seen as the IR model par excellence. As a critical case the development of the Danish model is an indicator of the traditional IR system’s future prospects in general.
Keywords: centralized decentralization; collective bargaining systems; Danish model; flexicurity; multi-level regulation

Introduction: From Centralized Decentralization towards Multilevel Regulation

In the present article we analyze developments in the Danish collective bargaining system over the past decade. On the one hand, the Danish model is still one of the most strongly founded industrial relation (IR) systems in the world, but on the other hand the increased competitive pressure on enterprises in an age of globalization seems to be undermining the model. We find the Danish IR system to be subject to triple pressure from (1) EU regulation, (2) the national political system, and (3) the parties at enterprise level. The aim of this article is therefore to examine to what extent this pressure will lead to erosion or to renewal of the collective bargaining system (Due and Madsen, 2006).

As early as in the 1980s labour market regulation in western market economies came under the influence of an intensified economic and political internationalization. While this led to a deregulation and disorganization of the labour market in countries like the USA and the UK with an ensuing erosion of the collective bargaining systems, in a number of European countries – including Denmark – the pressure for greater latitude for enterprises was met through a controlled decentralization process within the framework of the established system. It was this phenomenon that was designated by Traxler as organized decentralization, while other authors have referred to coordinated or controlled decentralization (Ferner and Hyman, 1992, 1998; Schulten, 2005; Traxler, 1995).

We have used the concept of ‘centralized decentralization’, which covers both a controlled delegation of bargaining rights from sector level to enterprise level in the bargaining system, and, at the same time, implies that the norms and values of the central system are retained down through the delegation process. This is the sine qua non for preserving the fundamental features of the IR system. It is of particular importance that the rules governing the conclusion of collective agreements nationally at sector level also apply to local negotiations (Due and Madsen, 2006; Due et al., 1994; Madsen et al., 2001).

In the second half of the 1990s and in the new century an intensification of this process has increased the competitive pressure on enterprises. In consequence it has become increasingly difficult to preserve organized or controlled decentralization, which seems in some countries to have reached its limits. The collective bargaining systems and the employee and employer organizations associated with them have been weakened, and there is a distinct trend towards an erosion of the sectoral agreements as the main principle for regulation of pay and working conditions. Developments in Germany amply illustrate this erosion of collective regulation, while similar negative trends have been seen in other European countries. By this yardstick the Danish model still seems to be...
solidly founded (Hassel, 1999; Ilsøe et al., 2005, 2007; Marginson and Sisson, 2004; Zagelmeyer, 2004).

But despite the relative strength of the Danish model our comprehensive analysis of developments in the Danish labour market over the past decade shows that here too it is possible to discern clear tendencies towards erosion of the collective regulation. Sector bargaining seems to be subject to a process of ‘evolutionary decay’ (Traxler et al., 2001: 206). Centralized decentralization would appear to be evolving in the direction of a kind of ‘multi-level regulation’, in which the controlling role of the sector organizations is being challenged.

While organized or centralized decentralization was still characterized by hierarchic control of a strongly top-down nature, multi-level regulation is not necessarily hierarchic. In some cases there may be a bottom-up effect instead of top-down control. But there may also be varying forms of coherence, or none at all, between the different levels. This is a more horizontal and ad hoc kind of control – either in the shape of market control or of network control, i.e. relations between employee representatives and/or management representatives from different enterprises in local and regional areas.

A mixture of forms of control is evolving, in which we find individual agreements, collective agreements and legislation, in which there are tendencies towards centralization, decentralization and internationalization, and in which there are many actors with diverse interests that reflect new norms and values.

It is our assumption that multi-level regulation will not in itself lead to erosion. This is one scenario, but in another scenario it will probably be possible to adjust the model to the new conditions. In all circumstances there is a fine balance to be struck since this will mean moving into the border zone of what can be called collective regulation.

The Main Features of the Danish Model

The term ‘the Danish model’ refers, on the one hand, to a collective bargaining system characterized by voluntarism, in which the opposing parties themselves determine pay and working conditions. This principle of self-regulation is a key feature, and it is therefore only underpinned by supplementary legislation to a limited extent. However, the Danish model is also characterized by close interaction between the social partners and the political system especially in terms of labour market policy, but also more broadly in the development of the ‘welfare society’.

The Danish model therefore constitutes a special hybrid form between the ‘corporatist IR regime’ and the ‘pluralist/liberal IR regime’ (Andersen, 2001; Visser, 1996). The basic regulation of pay and working conditions through collective agreements is mainly in line with liberal principles, but the simultaneously close – albeit chiefly ad hoc – links with the political system have a markedly corporatist character.

The salient features of the Danish model and its historical development can be summed up in the following five main points.
1 High Organization Densities and High Collective Bargaining Coverage

A labour market with strong organizations for both wage earners and employers (i.e. with high organization densities and high collective bargaining coverage) is the basic premise for maintenance of the Danish model. When regulation takes place solely through collective agreements, these must have a disseminative and spillover effect that in practice covers more or less the entire labour market. Otherwise pressure will arise for supplementary or alternative political regulation.

Today, employer organizations comprise enterprises employing 53 percent of employed wage earners, while the trade unions have an organization density of more than 75 percent. As the trade union movement has been effective in concluding agreements with unorganized employers, collective bargaining coverage in the private sector is 77 percent, while the corresponding figure for the labour market as a whole – i.e. including the public sector – is 85 percent.

Even though trade union membership has been in decline in recent years, this means that the IR system still has a very strong foundation based on employer and union organizations (DA, 2005; LO, 2006).

2 Nationally Coordinated Collective Bargaining

The regulation of pay and working conditions takes place through recurring national bargaining rounds with the sector level as the basis for the agreements. The key area is the substantial part of the private labour market – almost half of the total private sector – that is comprised by the organizations under the two largest central organizations, the Danish Confederation of Trade Unions (LO: Landsorganisationen i Danmark) and the Danish Employers’ Confederation (DA: Dansk Arbejdsgiverforening).

LO and DA are not the only actors in the Danish labour market. Besides DA there exist two minor employer central organizations covering the agricultural and the financial sectors: SALA, the Danish Confederation of Employers’ Associations in Agriculture; and FA, the Danish Employers’ Association for the Financial Sector. In addition to LO there are two other central organizations for white-collar workers and professionals, FTF (the Confederation of Salaried Employees and Civil Servants in Denmark), and AC (the Danish Confederation of Professional Associations). Apart from the financial sector, FTF – as with AC – has its strength in the public sector, but even here LO is the largest and strongest central organization. The public sector covers more than one third of the entire labour market. Collective bargaining in the public sector takes place through bargaining cartels that are comprised of unions from all three central organizations. This signals that the relations between these organizations are more of a complementary than a competitive nature.

Negotiations in the pivotal LO/DA area are coordinated via the central organizations and the State Conciliation Board on Labour Disputes, so that the agreements for the entire LO/DA area are concluded at one and the same
time, thus producing an outcome that has a spillover effect for the rest of the labour market. This coordination from above has been a general feature, but the pivotal point for the coordination has shifted over time between the central and the sector organization levels.

3 A Coherent Multi-level System
The Danish labour market enjoys a coherent regulatory system with strong relations between the parties not only at central level, but also at enterprise level, where there is an extensive and finely meshed network of union representatives, chapels and works councils with union representatives on the employee side, thereby ensuring effective implementation of the agreements. Furthermore there are various possibilities for negotiating pay and working conditions locally. This is therefore a system of considerable depth. From the establishment of the system at the beginning of the 20th century the trend-setting agreement for the metal industry created a framework in which the actual wage levels were agreed by the parties at the enterprise level. And this decentralization of wage bargaining has since been extended to other sectors, so that it currently covers 85 percent of the total LO/DA area in the private sector (DA, 2005).

From the outset it was the parties in the metal industry – the sector most exposed to competition – that have constituted the key bargaining area. With the changes in production and the composition of the labour force the parties of the old metal industry have expanded their territories. From the 1990s they covered the manufacturing industries as a whole including new high-tech areas. On the employer side, the Confederation of Danish Industries (DI: Dansk Industri), which has also expanded its activities to the service sectors, is the dominant actor. DI is larger than all the other DA member organizations put together. For the manufacturing industries DI concludes collective agreements with the bargaining cartel on the employee side – the Central Organization of Industrial Employees in Denmark (CO-industri) – for both blue- and white-collar workers. And these agreements set the pace – first for the other sectors in the DA/LO area and thereafter for the rest of the labour market.

4 Disputes and Consensus
The parties only have the right to engage in disputes in connection with negotiations concerning the conclusion and renewal of agreements. The threat of industrial action is regarded by the parties as a necessary instrument for achieving compromise between the opposing parties.

Relations between the parties are based on consensus and the premise of mutual respect for their diverging interests. A ‘consensus culture’ has evolved characterized by the ability to make distributive bargaining integrative (Walton and McKersie, 1965; Walton et al., 1994). This means that the bargaining leads to results that strike a balance between the parties’ interests and socio-economic demands. The American IR researcher Walter Galenson, who had
an intimate knowledge of the Scandinavian IR systems with a primary focus on Denmark, spoke of ‘… the Danish genius for compromise’ (Galenson, 1952). But this is an ability to compromise that is based on respect for the opposing party’s diverging interests.

There is also agreement not to resort to industrial action during the settlement period and there are effective procedures for resolving disputes, the so-called ‘peace obligation’. There is also the freedom to take sympathetic industrial action, which has been a significant element in the bargaining system, both as an instrument (for employers) to coordinate negotiations at the central level and as an instrument (for the unions) to extend the agreements to unorganized areas.

5 Voluntarism: Self-regulation with Limited Legislation

The regulation of pay and working conditions and of associated issues is effected mainly through agreements between the parties, i.e. via a voluntary system based on the principle of self-regulation. This means that both the process and the procedures on which relations between the parties are founded (general agreements and the like) and the material content in labour market regulation (collective agreements) are determined through agreements between voluntary organizations.

The parties’ own procedural agreements are underpinned by supporting legislation with respect to process (arbitration law and employment law). Furthermore, political interventions in major conflicts have become standard practice. Legislation on procedural rules is generally based on prior agreement between the parties, i.e. the ‘consensus principle’. The State Conciliation Board on Labour Disputes adheres to a principle of the parties’ direct or indirect acceptance. As a rule, government intervention cements the level attained in the parties’ own negotiations.

The Five Phases of the Danish Bargaining Model

The above six points do not constitute a static model, but reflect some of main features that have evolved over the more than 100 years that the system has existed, and which have undergone continuous change. The ability of the parties to adapt the model to new forms of external pressure has been an important factor in its success.

However, it must be emphasized that a high degree of self-regulation is required in order to sustain the Danish model. The second essential element is the maintenance of coordinated collective bargaining at the national level. From the beginning it has been a decisive factor – driven by the employers’ objective for collective regulation – to ensure that there is a general control over the negotiation process. Whether the sector organization level or the central organization level has been the pivotal level, and thus constituted a clearly defined, controlling centre, has changed over the years.
The historical development of the Danish model can be briefly summarized in five connected phases.

1. An establishment phase in the decades around the year 1900. The institutionalization process started with the conclusion of the first central agreement in 1899 – the September Compromise. This first decisive main agreement was the outcome of a major lockout, which at that time was the most comprehensive industrial conflict to date (Crouch, 1993).

2. A centralization phase in the 1920s and 1930s, when negotiations were conducted in the individual organizations at sector level because most unions were opposed to centralization. DA coordinated the negotiations and used sympathy lockouts as a means of securing a unified process. It was not until changes were introduced in the negotiation rules and the arbitration law that a de facto centralization took place via the Official Conciliator’s powers to submit conciliation proposals and carry out a general ballot on the principle that either all parties got a collective agreement or all parties ended in an industrial dispute. Galenson concluded that in Denmark the Official Conciliator thus became ‘the crucial stage in collective bargaining’ (Galenson, 1952: 117).

3. The central negotiations phase from the beginning of the 1950s to the end of the 1970s, when the renewal of collective agreements took place under the control of the central organizations and in interaction with the State Conciliation Board on Labour Disputes.

4. The centralized decentralization phase in the 1980s and the 1990s, when there was a shift from central organization to sector organization level accompanied by a delegation of bargaining rights to the parties at enterprise level. At the same time an organizational centralization took place with the introduction of new large sector-wide organizations that – within agreements that were of a more general framework nature – were able to preserve an overall coordination despite the delegation of bargaining rights to enterprise level.

The two sector organizations that took over the pivotal role in the collective bargaining process from DA and LO were, as mentioned earlier, the DI, and the union bargaining cartel, the CO-industri. The DI, in particular, still found it necessary to prevent the parties in sectors that were not so exposed to international competition from concluding agreements for fear of upsetting DI enterprises. Hence there still was (and is) an important co-coordinating role for the central organizations, DA and LO, to ensure a joint solution for the entire LO/DA area in accordance with the needs of the industrial parties. Furthermore, in that final process of the negotiation rounds the Official Conciliator still fulfilled his or her traditional crucial function using the right to carry out a final ballot.

5. The move towards multi-level regulation at the end of the 1990s and the beginning of the new century, when pressure from the national and the international regulation levels from above, and the enterprise level from below, has challenged the coordination of the central actors.
It must be emphasized that neither centralized decentralization nor multi-level regulation are entirely new. For instance, as noted earlier, bargaining rights concerning pay have from the very inception of the system been delegated to local parties in the metal industry, within the framework of the general sector agreement, i.e. centralized decentralization. And with simultaneous regulation at enterprise, sector organization and central organization levels along with the political level, the system has always been characterized by a degree of multi-level regulation. But it was only in the second half of the 1980s that the new big sector organizations acquired a decisive coordinating role in a form of regulation in which an increasing number of issues were moved out to the enterprises, and it thereby became possible to characterize the system by the general concept of centralized decentralization. And it was only in the second half of the 1990s that the trend towards simultaneous regulation at the various levels reached an extent that made it relevant to ask whether instead of using the term centralized decentralization it would not be more precise to designate the Danish IR model as a multi-level regulated system.

The Triple Pressure on the Danish Model

An analysis of the bargaining system in the decade from the mid-1990s to 2005 reveals perceptible changes in the Danish model (Due and Madsen, 2006). The general trend has been towards a situation in which it is no longer overwhelmingly the social partners that regulate pay and working conditions themselves. The bargaining system is now exposed to a triple pressure: (1) from the EU level; (2) from the national political level; and, (3) from the enterprise level. It was for this reason that at the end of the 1990s we began to speak of ‘multi-level regulation’ and to question whether the Danish model with its principle of self-regulation and coordination from above could be preserved. Were the actors in the collective bargaining system capable once more of adjusting the system to new conditions, or was this the beginning of the end for the Danish model?

Our analysis of the past decade cannot as yet present a definitive answer. We are still looking at an ongoing process that actually exhibits divergent trends from one area to the next. The provisional conclusion, which is shared by the social partners, is thus that for the time being at least it will be possible to handle the pressure from EU regulation and from enterprise level without sacrificing the key features of the Danish model.

During the period that we have analysed there has been a clear shift of powers from the national to the EU level. The simple fact is that there are now matters that are regulated at European level, which has created a new arena containing many actors and types of regulation, i.e. a pronounced form of multi-level regulation.

This has led to collisions between EU regulation, which is based on individual rights, and the Danish model, which is founded on collective rights. The fact that about a quarter of privately employed wage earners are not directly covered by collective agreements thus becomes a problem. From an EU per-
spective this is not acceptable – even though in reality the Danish system, with its collective agreements, safeguards the interests of the total group of wage earners better than is the case in many legislatively regulated systems. The social partners and the politicians in Denmark have had to resolve this problem. They have succeeded in neutralizing the pressure from the EU through a new Danish Erga Omnes model with supplementary legislation. This arrangement provides cover for all at the same time as it is very much based on the parties’ premises, as it is the parties’ agreements that are extended to employees not covered by collective agreements via the supplementary legislation.

At enterprise level we find that here too real bargaining rights have been delegated from the sector level – but this has taken place in a process in which the social partners have retained control from above. At the same time, however, there are problems involved in this development since the delegation of bargaining rights takes place at the intersection of managerial rights and the right to collective bargaining. Where the line should be drawn is still a subject of discussion between the social partners.

To date the principle has been retained that there must be local agreement on issues that are delegated to the enterprises, i.e. bargaining rights from the central agreement system should move out in step with decentralization. But in the trade unions there is some concern as to whether employee influence can be preserved in this context, i.e. whether union representatives have the capacity to make real use of their bargaining rights. So far, however, the view is that the model is holding up.

This should certainly not be taken to mean that the pressure from the EU and the enterprises is a closed chapter. It is an ongoing process that in the next decade – not least as a result of the challenges of globalization – will make new demands of the adaptability of the parties in the Danish labour market.

The pressure from the national political level, however, is a quite different matter. Since the beginning of the 1990s the scope of the agreements has been substantially expanded by the inclusion of a number of welfare issues in collective bargaining such as sick and maternity pay, pensions, further training and social chapters. This has led to the emergence of a composite or dual-regulation arena in which conditions are determined by both legislation and collective agreements. While giving the social partners increasing political influence, this has, at the same time, paved the way for the national political actors to obtain a direct influence on the social partners’ own collective bargaining.

This constitutes a more serious and acute challenge for the parties and their principle of self-regulation. The chief problem for the bargaining model seems to reside in its interaction with the political system.

True, the Danish model has always been characterized by close – albeit informal and ad hoc – relations between the social partners and the political actors, which has facilitated the involvement of the social partners in political issues of relevance to the labour market. But as a rule there has been a clear division between legislation and agreements, so that the social partners’ self-regulation has been respected by the political system.
What is new in the game in the tripartite arena is precisely that with the incorporation of welfare issues the game is no longer either/or but both/and. Regulation takes place concurrently via both collective agreements and legislation. The basis of regulation by law is to give the single individual citizens certain rights and obligations. It is by nature universal in contrast to collective agreements, which are only binding for the parties of these agreements in the specific areas they cover. This leads to a direct confrontation at national level between the political system’s individual-oriented normative principle of equality and the bargaining system’s collective contractual logic. At the same time a shift in power relations occurs when both legislation and agreements are brought to bear. The social partners are obliged to accept the elected parliament’s sovereign political legitimacy. A Danish adage has it that there is ‘nothing above and nothing beside the Folketing’. But what of the principle of self-regulation? Its preservation will require very disciplined politicians.

The background for the broadening of collective bargaining is, first, that the political actors see an advantage in leaving the responsibility to the social partners and thereby also a possibility of relieving the pressure on welfare expenditure. Second, the social partners need the welfare benefits for their central sector negotiations, if they are to develop overall solutions that can be supported by a majority of their members, in the context of a decentralized system in which most of the negotiations are local. And this is especially necessary when, as is the normal practice in Denmark, the results have to be approved by general ballot. Third, the unions can, in this way, secure welfare benefits for which there is a demand among their members while the employers achieve control over increases in scope and costs. Fourth, the legitimacy of both the social partners and the political system is reinforced through the establishment of a joint responsibility for the extension of welfare benefits.

Respect for the self-regulation of the parties requires that the incorporation of welfare issues forms part of the general framework of the collective bargaining process and is thus a genuine priority for the social partners. There must be room for a joint integrative outcome of the negotiations. Over the past decade the trend in the interaction between the social partners and the political actors shows that this is an extremely difficult process. Not least the question of the establishment of an inclusive equalization scheme for maternity/parental leave during the 2004 collective bargaining rounds clearly showed that combined regulation opened up a struggle that was very difficult to control. Here it was to a great extent the political actors who set the agenda for the social partners. Their self-regulation role was thereby made to look like little more than a ‘rubber-stamp’ for politically-determined requirements.

The balance between the social partners and the political actors changed again with the 2007 collective bargaining round. The important question of further training and continuing education was considered through a close interaction between the social partners and the government leading to a tripartite agreement. The government promised increasing public spending on the condition that the social partners strengthen their efforts through the new
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collective agreements of 2007. As a result the social partners reached an agreement on stronger employee rights to further training and continuing education during the 2007 negotiations.

It was a clear example of dual regulation through both legislation and collective bargaining and this time in accordance to the self-regulation principle of the Danish model. This trend was followed once more with a new tripartite agreement in June 2007 between the government, the National Association of Local Authorities and the central organizations on better work conditions in the public sector.

The Danish model seems to be back on track, but according to leading representatives of the trade unions and employer associations new setbacks can always emerge. These two recent examples of constructive interplay between the political actors and the social partners are a result of a coincidental conjunction of circumstances leading to common interests between the social partners and the political actors who therefore could act in unison. But from a more sceptical view the political actors seem to follow their own self-interests and under new circumstances they will be willing to set the principle of self-regulation aside if that is the best way to promote their interests.

The prelude to the collective bargaining round in the public sector in spring 2008 seems to confirm the sceptical view. The summer and autumn of 2007 have been marked by political interference in the upcoming wage negotiations on an unprecedented scale and in a manner that contradicts the self-regulation principle of the Danish bargaining model.³

Declining Membership as a Threat

Seen in a longer-term perspective it will only be possible to preserve the dominant position of the labour market organizations in Denmark if the high coverage of collective bargaining is preserved. But it will be necessary for the organizations on both sides to retain their strength, because their representativeness is a precondition for maintaining the legitimacy of the system (Visser, 2005: 297). The most serious worry for both sides is therefore first and foremost the decline in union membership over the past decade.

In this connection, it has given cause for concern that the unions, especially those belonging to the largest central organization, LO, are losing members. In 1994, LO reached the peak level with 1.51m members. By the end of 2006 there were only 1.3m members – a total loss of 210,000 members. Over the past couple of years the pace of the decline has been increasing. The LO member unions represent the traditional groups of hourly-paid skilled and unskilled workers and salaried employees in the retail and service sectors, and the LO unions’ loss of members is primarily due to the growing number of employees who have further and higher education. These groups are, for the main part, organized under the two supplementary central organizations, FTF and AC, which have continued to increase their membership into the new century.

In 2005, the proportion of union members in LO was 63 percent, in FTF 17
percent and in AC 8 percent. LO is still the dominant actor with two-thirds of union members, however their membership decline seems to be accelerating. It will probably put the question of a merger of the central organizations on the agenda in the coming years as a means to safeguard the overall political influence of the trade union movement.

In the period from 1995 to 2005 overall Danish union density fell from 84 to 77 percent (Scheuer, 2006). Over the past decade it has been increasingly difficult to recruit new generations of young wage earners in particular – not least from the ranks of immigrants and refugees.

It is an open question how high union density needs to be to ensure the legitimacy of the system. In countries like Denmark, Finland and Sweden union density has traditionally been extremely high – 80 percent or more. In a fourth country, Norway, union density is only around 55 percent. However, the Norwegian IR system is still very strong in an international comparison – close to the IR systems of the three other Nordic countries mentioned earlier. The much higher densities in Denmark, Finland and Sweden are mainly a result of the Ghent system in these countries, i.e. the close link between trade unions and unemployment funds. For the trade unions this has been an effective means to recruit and retain members. In Norway the Ghent system was abolished in 1938.

Since the middle of the 1990s there have been clear signs of an erosion of the Ghent system in all three countries (Kjellberg, 2006; Lind, 2006). In Denmark the new liberal-conservative government in 2002 opened up competition between the unemployment funds, which threatened the control of the traditional unions. Since then independent unemployment funds and new alternative ‘discount’ unions have been growing contributing to the loss of members in the LO unions. It will probably take many years before the level is as low as in Norway, but it is a very difficult process for large unions to adapt to continually declining membership levels.

The loss of members is not least problematic in a period in which collective bargaining has to a large degree been decentralized and delegated to enterprise level, because this weakens the possibilities for effective local representation of wage earner interests (Ilsoe et al., 2005, 2007; Visser, 2005). If this representation is not strengthened at enterprise level in step with decentralization, the outcome will probably be erosion. It is here the limits to organized/centralized decentralization can be identified. Both the central sector organizations’ control from above and the collective nature of enterprise-based regulation will be subject to pressure. But if, on the other hand, new structures are developed locally in continued interaction with the social partners’ at sector level, it will be possible to preserve the collective framework for labour market regulation. In this case it may be expected that the collective bargaining system will be renewed though a shift of focus from sector to enterprise level, i.e. an adjustment to the new conditions created by globalization.
The Danish Flexicurity Model

The legitimacy of the Danish model is ultimately determined by its results – the proof of the pudding is in the eating. It must continue to be possible to produce integrative bargaining results, i.e. collective agreements that take into account both the wage earners’ wish for increased real earnings and more social benefits and the employers’ interest in keeping costs at a level that secures their competitiveness while ensuring that the economic consequences for society are acceptable. In certain periods it has been difficult to live up to these requirements, but each time the social partners have succeeded in adjusting the system. Also in the present situation there seem to be grounds for optimism about the model.

The Danish labour market has attracted attention worldwide in recent years. There is also awareness in other countries of the Danish model’s special combination of flexibility and security – ‘flexicurity’ – which seems to be particularly effective in securing the competitiveness of enterprises in the age of globalization (Andersen and Mailand, 2005; Bredgaard et al., 2005; Wildthagen and Tros, 2004; Wildthagen et al., 2003).

The relative ease with which employers can dismiss employees gives Danish enterprises a large degree of flexibility. On the other hand, wage earners are secured financially by unemployment benefits for a considerable period, and at the same time there are good prospects of new employment thanks to effective active labour market policy. A flexible labour market with high mobility has evolved, and since it is easy to fire, employers are not afraid to hire. For these reasons, and despite the low degree of formal employment protection, according to OECD studies, Danish wage earners express levels of job security much higher than those reported by wage earners in most other countries.

The background for the Danish flexicurity arrangement is the special collective bargaining system that has evolved over more than a century, and which has created an integrative negotiating culture from top to bottom in the IR system. The potentially conflicting interests of the social partners in respect of the distribution of economic resources and influence have been transformed into a negotiating game in which both sides have their needs taken into account. Without this relationship of trust, wage earners and their organizations would not accept lower job security than that enjoyed by workers in most other European countries. If high trust relations were compromised, pressure would then arise for better conditions through agreements or, if necessary, through legislation, and the flexicurity arrangement would disintegrate.

With increased decentralization, strong institutions for union representation remain a necessary condition for reaching effective and flexible local agreements at workplace level. Accordingly, part of the settlement of the 2007 bargaining round was an improvement of the conditions of shop stewards.
Conclusions

If the balance between political regulation and regulation by collective bargaining is shifted in the direction of an increased degree of legislation, the self-regulation of the social partners will be weakened, which will probably also have a negative effect on the trust-based bargaining relations between the social partners. In the longer term the outcome could be a more market-regulated and politically-regulated system signalling the end of the Danish model in its present form. Pressures from outside Denmark seem to be pushing things in this direction.

One example of this from 2006 was a ruling from the International Court of Human Rights in Strasbourg that went against Denmark. Here the Court found against the Danish practice of exclusive (i.e. closed shop) agreements in a limited part of the labour market. One may of course be of the opinion that if the IR model is in some cases dependent on compulsory membership of certain organizations, it is not worth preserving. Our conclusion is that the new prohibitions on exclusive agreements can be accommodated even though the use of exclusive agreements has undoubtedly been one of the reasons for the high collective bargaining coverage and high union density in Denmark. These agreements have increased union recruitment as it has been possible to conclude accession agreements containing exclusive articles for non-organized areas. The decision means that there will inevitably be a loss of members and this may lead to lower collective bargaining coverage and thereby increase the problem of wage earners not being covered by collective agreements. Other things being equal, the pressure for political regulation will consequently be intensified.

Like other small countries Denmark is probably better placed than larger national entities to create a both effective and flexible regulation system for the labour market. But in an internationalized world small countries are also more susceptible to the influence of trends from outside. The impact of Europeanization and globalization may become clear over time. But even though this will ultimately change the Danish model, it is far from given that the outcome will be convergence. When we look at national IR systems, it seems probable that a high degree of diversity will persist. This does not lessen the necessity of adjustment to external pressure, but implies that the adjustment is unlikely to result in uniform national regulation models. In Denmark, for example, it is unlikely that changes in the collective bargaining system will lead in the direction of pure market regulation, as has been the case in countries such as the USA, Great Britain, Australia and New Zealand. Thus, in Denmark, since the liberal-conservative government came into office in 2001, it has retained power on the basis of a contract with voters to the effect that the government guarantees the maintenance of the social-democratic welfare state.

If the Danish unions are weakened and no longer have the strength to secure the interests of wage earners, the political groupings will compete to occupy the
ensuing vacuum. One can therefore expect the introduction of legislation that provides a high degree of protection to wage earner rights, since in Denmark the electoral support of the major wage earner groups is a prerequisite for staying in power. No matter what form labour market regulation assumes in the future, Denmark will retain a strongly social-democratic character, as will probably be the case for the other Nordic countries.

This is of course contingent on the securing of regulation that adjusts production to intensified international competition. And it may well prove problematic to experiment to the extent that the established institutions are weakened. So far, collective self-regulation of the labour market has, in the national context, been a precondition for its effective functioning and the continued adaptability of Denmark’s labour market regulation. It is far from given that a more directly politically-regulated system will afford the same degree of self-discipline.

The Danish model seems at the moment to be in a particularly uncertain situation. On the one hand, it is pervaded by a considerable optimism thanks to the effective and flexible system of labour market regulation and the admiration it has evoked far beyond the country’s borders. But, on the other hand, there is a strong feeling that the whole system is at risk, that even the slightest shift might suddenly change the premises of the model.

In this sense Denmark can be seen as a critical case in assessing the question of the collective regulatory model’s chances of survival in a globalized world. The situation may be seen as a kind of ‘New York, New York’ (‘If you can make it there, you can make it anywhere’) in reverse. If, even in a country like Denmark, with its strong traditions for regulation of the labour market through collective bargaining, it proves impossible to maintain the system under the new intensified international competition, it is unlikely that traditional IR regulation will be able to survive anywhere.

Notes

1 The present article is based on our comprehensive study of the Danish organization and collective agreement system in the period 1995–2005. The study was published in Danish in January 2006 in the book Fra storkonflikt til barselsfond. Den danske model under afdeling eller fornøjelse [From major industrial dispute to maternity fund – Erosion or renewal of the Danish model]. An abbreviated English edition of the book is under preparation. The book follows up on our earlier study of the Danish collective agreement model’s emergence and development, which covers the period from the establishment of the collective bargaining system at the start of the last century up to the beginning of the 1990s, Den danske Model (Due et al., 1993). The book appeared in English as The Survival of the Danish Model (Due et al., 1994). We would like to thank our colleagues Anna Ilsøe and Trine Larsen for critical and useful comments to earlier versions of the article.

2 The DA figure on the collective bargaining coverage in the private sector, 77 percent, is based on statistical data and measured as number of full time employees covered by collective agreements in relation to the total number of employees in the labour force. There is a marked difference to a survey from the middle of the 1990s, which surprisingly
for the social partners showed that the collective agreement coverage was as low as 52 percent. A survey from 2000 by the same researcher tried to explain the gap using a more sophisticated approach. The conclusion was that 71 percent of the employees in the private sector were covered by collective agreements, i.e. almost the same level as the DA figure (Due and Madsen, 2006; Scheuer, 1996, 2000).

At the time of writing the outcome of the 2008 collective bargaining round was still uncertain.

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