


# *Flexicurity*

A painting of a man in a blue suit holding a large red umbrella, standing in a misty field with other figures in the distance. The scene is atmospheric and somewhat somber, with a blue and grey color palette. The man in the foreground is seen from behind, looking out over a misty landscape where several other figures are walking, some also holding umbrellas. The overall mood is one of contemplation and perhaps a sense of shared experience or struggle.

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**TEN YEARS AGO**, the stylized story about poverty and inequality went something like this: “You can be the United States, with lots of income inequality, very flexible labor markets, and very high levels of employment; or you can be Germany, with not so much inequality, rigid labor markets, and lots of unemployment; or you can be Sweden, with pretty low levels of inequality and unemployment. But you can be Sweden only if you employ lots of workers (especially women) in an expanded public sector providing services to families, as inflexible labor market rules keep private sector firms from expanding employment.”



Given these options, our system did not seem so bad. Sober analysts acknowledged the costs of American inequality and poverty, especially for African-Americans. But sobriety also compelled recognition of the benefits of the great American jobs machine: creating lots of low-wage work was a large compensation, not least to middle-class families who could afford to hire domestic workers to provide some of the services provided publicly in Sweden. It was hard to see an alternative, as we lacked Sweden's cultural homogeneity, its solidaristic political culture, and the associated willingness to maintain oversized public employment.

And really: How could there have been an alternative with better results for low-wage workers, given our deeply rooted concern that the protections provided by rigid labor markets or substantial public employment ultimately limit the life chances of the vulnerable by undermining their sense of personal responsibility? Short-term gains in security sound good, but aren't they overwhelmed by the long-term risks of dependency? Low unemployment with high levels of labor force participation and high growth rates; greater income equality and reduced poverty; and a sense of personal responsibility resistant to the moral hazards of solidaristic subsidies: That mix is nice work if you can get it, and good for the utopian fantasies that some call "political philosophy." But such a package is simply unrealistic here, and probably impossible (except in a Sweden) given the hard trade-offs that life imposes and that grown-ups understand.

That was then, this is now. The grown-ups who managed the miracle of global finance have been sent to their (generously appointed) rooms. Leading policymakers look openly to Japan for lessons about anti-deflationary policy when interest rates hover just above the "zero bound" and to Sweden for lessons about how to nationalize, revitalize, and reprivatize a financial system after a bad-mortgage binge. Fears are great, but hopes are also high. And the idea that the United States might have something to learn about public policy from the rest of the world seems a little less like the carping of academics constitutionally incapable of appreciating what awed the rest of the world about this country, and a little more like the thing that sensible adults do when they are having "issues."

As it happens, when it comes to addressing inequality and poverty, there is something to learn from the far reaches of Old Europe.

Consider the case of Denmark. In the early 1990s, facing high unemployment, low growth, a public sector nearly immobilized in the face of economic decline, and a long-smoldering revolt against an apparently incapacitated state, Denmark reconfigured its welfare state to create a system called *flexicurity*. The essential idea of flexicurity—conveyed by the name—is to combine high *flexibility* in labor markets with high levels of *security* for workers. The flexibility includes both wage flexibility and relative ease for firms in laying off workers, with much lower levels of job protection than other OECD countries. The security comes from a mix of high levels of unemployment insur-

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ance—a considerably higher “replacement rate,” or ratio of average weekly benefits to average weekly earnings, than any other OECD country—and an active labor market policy providing education and training. This training ensures successful integration into the labor market for younger and older workers, and it offers lifelong learning. The idea, in a slogan, is: *Employment security, not job security*. It means a career at varied, increasingly skilled work, not a lifetime climbing the job ladder in a single firm.

The cumulative effect of flexicurity for individuals, moreover, is to encourage an economy-wide shift in favor of more skilled jobs, as well as innovative firms that can make use of them. Low unemployment rates and rising skill levels give the most skilled, desirable workers (who are, of course, likely to be the ones most attentive to skill acquisition) their pick of jobs. Employers have to attract them with work that is not only interesting, but offers the prospect of further learning. Firms can afford to offer such jobs only if they undertake projects that make productive and well-remunerated use of these workers—and such projects, being the opposite of routine, will naturally require innovative exploration of new possibilities. The robust, adaptable security of individuals fosters the adaptive robustness of the whole economy.

Two other features of flexicurity, not built into the name, are essential to its success. In contrast with our conventional picture of public goods as (by their nature) standardized for broad categories of recipients (e.g., primary education for children ages, say, 5 to 10), flexicurity is individualized. The guiding assumption—based on many recent studies of life on Earth—is that individuals have distinct lives, and that (especially when people are experiencing troubles) those lives cannot easily or constructively be compartmentalized into discrete pieces—work, family, education, training, income, health, transportation, housing—addressed by distinct policies. On the contrary, family problems are likely to aggravate, or be aggravated by, problems in school or work; addressing any one of these effectively requires attention to at least some of the others. So, support for younger and older adult jobseekers requires not just *customized* services, but *bundles* of customized services adjusted to the needs of individuals and meshing with one another.

Moreover, because education and training require the engagement of workers in ways that simple income support (or in-kind assistance) does not, there is also an important role for *personal responsibility*. Customized services are effective only if those to

whom the services are directed participate actively in their production—indeed, that participation is required for the services to be customized to particular needs in the first place. Flexicurity is not what a “nanny state” does when it is taking charge of its responsibility-challenged, incapacitated wards; it is not what a sadder-but-wiser, post-nanny welfare state does when it compensates citizens for some hard luck in youth before sending them out to face the tough, cold world. It is what a democracy does to ensure the continuing inclusion of all its equal members, in a world where we face, individually and collectively, the continuing risks of economic, social, and political exclusion thrown up by rapidly changing labor markets in largely open economies.

This low-resolution description of flexicurity focuses on design principles rather than specific policies and corresponding institutions. But this level of description is entirely faithful to the self-understandings of actors in the system (especially to some of the leading social democrats, such as Mogens Lykketoft, who helped create Danish flexicurity in the 1990s, and the many local and regional actors who customize services today) and of the many outsiders who have tried to learn from the Danish experience. As the appeal of flexicurity has spread from Denmark to Ireland, Finland, and the Netherlands, and become a focus of EU debate over labor market policy, participants in that debate have come to understand that flexicurity takes different forms in different settings. Jeremy Bentham once wrote a constitutional code with a blank space left for the name of the country. The participants in the debate about flexicurity are less abstractly universal in their thinking. As they understand it, the right way to think about flexicurity’s broader dispersion is not to simply take a Danish operating manual, translate, enter another country’s name, and apply. Instead, the point is to adapt the five design principles just described—flexibility in employment and compensation, robust security for workers, lifelong learning, customization, and personal responsibility to make use of changing opportunities—then pursue mutual comparisons across different versions of flexicurity (first internationally, then domestically) for improvement. Thus, a sixth principle of flexicurity is its adaptability—to changes in Denmark, and, at least potentially, to settings in other countries.

Transforming flexibility and security from competing goods to mutually supportive complements is immensely appealing in an age of deep uncertainty. This appeal has made flexicurity the active subject of EU discussion in recent years, as the European Commission has urged other countries to adopt their

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own versions of the Danish system. The main European debate acknowledges the merits of the scheme as applied in Denmark, which has experienced persistently low unemployment, high labor force participation, and low inequality. (Some critics have argued that Denmark's strong economic performance is not a result of flexicurity. They point to very slight reductions in labor supply resulting from high replacement rates and the detailed rules covering short-term unemployment. But they ignore what appear to be the significant structural benefits of increased mobility and skill acquisition to the economy.) The concern has been whether the essentials of the system, including its adaptability to changing domestic conditions, can translate across national boundaries, especially because of different regulatory institutions (and associated capacities to sustain active labor market policy), varying levels of trust and solidarity (e.g., how much can people be trusted not to game the unemployment insurance system), and different traditions of labor market flexibility and volatility.

Some of the concerns that have been raised in the European portability debate arguably carry over to the United States, with even greater force:

- The Danes have trust and solidarity; the United States, in contrast, is a famously fractious place, with an abstractly constitutional patriotism, not the deeper ethno-national solidarities needed to provide the assurances against cheating on which flexicurity depends.
- Americans have an exceptionally passionate attachment to individual responsibility. Yes, we like our equality of opportunity, too: Indeed, that value lies at the heart of our shared civic convictions. But the conventional idea of mixing equal opportunity and responsibility is to ensure equality at life's starting gate, whether through initial education and training, or—as in the post-nanny welfare state Bruce Ackerman and Anne Alstott proposed—a wealth gift for each citizen at age 21 that he or she can use to fund a career, or through some other form of early equalization, after which responsibility kicks in and (but for occasions of personal disaster) individuals are the agents of their own failure and success.
- The Danes like to pay taxes: They have 50 percent tax rates. We don't like taxes. But you have to like them some to support the customized system of lifelong learning.
- The Danes have unions; the United States' unionization

rate is about one-tenth Denmark's. How can a country run an active labor market policy with high levels of security and flexibility if it lacks unions with the local knowledge to help ensure the flexibility, or the national power to help guard the state's commitment to security?

These concerns are all forceful, but we are living through unusual times, and we wonder whether we should let ourselves be guided by a knee-jerk invocation of American exceptionalism. All four criticisms remind us that a move to flexicurity would require a sharp departure from past practice, freeing ourselves from the tight grip of the past's famously cold, dead hand. But just a few quick reminders: In November 2008, the country elected a black president, defying conventional expectations. And we are now passing through the largest economic crisis in 75 years, a crisis that looks like it will issue in some entirely unanticipated shifts in national policy. We have already thrown caution to the winds. It would be a tragic mistake to think we could do that, yet remain otherwise as constrained as we often take ourselves to be.

These general observations about unusual circumstances and possibilities apply with particular force to the first concern—the sufficiency of national trust and solidarity. Who knows how much trust and solidarity are really essential to make flexicurity work, or how much we can muster?

As for the second, personal responsibility plays, as we have said, a large and essential role in flexicurity. While it is not about finger-wagging, it does accept that a person's success and failure in life depend importantly on her aspirations and efforts. Flexicurity is about lifelong learning in a public policy system that does not deny personal responsibility (you cannot learn without playing an active role), but rather reconceptualizes the conventional notion that we are victims of (a slightly corrigible) fate until 18 or 21, and nearly self-sufficient thereafter.

What about taxes? One pertinent observation is that no one loves taxes, not even the Danes. In fact, flexicurity was, in part, a reaction to a Danish tax revolt dating to the 1970s. That revolt was animated by a simple idea: Taxes are fine if they are used for good purposes (Danes, like the rest of us, are allergic to throwing money away). But aren't things different in the United States? Doesn't the American allergy extend even to taxes that are used efficiently for public purposes? Isn't the point here to keep "our own money"?

Maybe. But maybe not. In his interesting book *Why Trust Matters*, Mark Hetherington argues that variations in willing-



ness to spend on social welfare in the United States since the 1960s are explained not by shifts to an ideological conservatism, but by shifts in trust, particularly in the government's capacity to make good uses of tax resources: "When government programs require people to make sacrifices, they need to trust that the result will be a better future for everyone. Absent that trust, people will deem such sacrifices as unfair, even punitive, and, thus, will not support the programs that require them" (p. 4). Hetherington's argument is that the relevant kinds of trust declined after the mid-1960s. His case is hardly conclusive, but his point has considerable force, at least against the knee-jerk idea that intense tax allergies here make an otherwise attractive labor market policy—good for growth and for distribution—ineligible.

As for unions, we are not expecting a large expansion in American unionization rates. But we need to be careful about the role of unions in the flexicurity system. Danish unions helped push for innovations in the system of lifelong learning, and they play an important part in managing regional services (especially at the plant level). But the national unions are not, at the moment, active in extending or further adapting the system at the national level, and they have been reluctant to encourage too much local initiative for fear of authorizing a decentralization that they would be unable to control. That said, the power of unions to protect workers from employer offensives helps create

a political environment in which employers and government are more inclined to look for a reasonable social bargain that does not impose large burdens on workers. A balance of power helps public reason work its magic.

But even here, the lessons for the United States may not be as dim as the point suggests. The last election and the current crisis are creating possibilities that do not exist in more normal times, and there is broad agreement that larger investments in worker training are important. With some foresight and a great deal of good fortune, it might be possible to improve the balance of power here, too, in a way that gives a reinvigorated labor movement a role in constructing a national framework for lifelong learning and contributing to that framework's local adaptability.

The Republicans are accusing President Obama of wanting to turn the United States into a northern European "welfare state." When it comes to flexicurity—with its embrace of equality, dynamic efficiency, and a sensible understanding of responsibility—we hope they are right.

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