

EMPLOYMENT AND TRAINING
PAPERS

53

Denmark: Flexibility, security and labour market success

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ILO Country Employment Policy Review in selected OECD countries

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Foreword

The present study is part of the ILO's follow-up to Commitment 3 of the Declaration and Programme of Action of the World Summit on Social Development in Copenhagen in 1995. Commitment 3 reiterates the importance of full, productive and freely chosen employment, as a basic condition for social progress among UN organizations. The ILO has a specific responsibility for monitoring the progress made by countries in the fulfilment of Commitment 3.

In addition to the preparation of Country Employment Policy Reviews (CEPRs) in the developing and transition countries the ILO also decided to review progress of some OECD countries towards full employment. Among the countries experiencing improvements in their labour markets in recent years, four smaller European countries (Austria, Denmark, the Netherlands and Ireland) were selected. Contrary to some of the bigger European countries, these four countries have been experiencing an impressive labour market recovery, or have maintained a low level of unemployment over the long term. For each of these countries, a national CEPR was prepared in consultation with the social partners and the governments.

The present CEPR shows the achievements of Denmark. Unemployment has declined to half its former level in recent years and employment rates both for men and women are the highest in Europe. Employment growth has also accelerated lately. A policy of wage moderation and labour market reform carried out jointly by the social partners and the government is one of the main reasons for the Danish success. Also an effective macro-economic policy explains progress on the labour markets. An active labour market and education and training policy which supported labour market mobility is a third factor explaining the Danish labour market revival.

But Denmark also faces some difficulties. While youth and long-term unemployment are on lower levels, they remain policy challenges. The ending of some of the early retirement provisions might lead to higher unemployment among older workers. There is also the emergence of bottlenecks in certain areas of the labour market while at the same time a large number of people are still in labour market schemes.

This report, together with those on Austria, Ireland and the Netherlands, form part of the project on Country Employment Policy Reviews in selected OECD countries. Two other publications are planned under this activity: Peter Auer "Employment revival in Europe: Labour market success in Austria, Denmark, Ireland and the Netherlands (ILO, Geneva, forthcoming) and Peter Auer (ed.) "Labour market institutions for decent work (ILO, Geneva, forthcoming).

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Contents

1.	The Danish employment miracle in the 1990s	1
2.	The Danish model of the welfare state	9
2.1	The stylised facts of the Danish welfare state	9
2.2	Internal problems of the Danish welfare state	11
2.3	Economic integration and national macro-economic policy	11
2.4	Fiscal pressure on the Danish model	11
2.5	Social dumping and social migration	12
2.6	Summing up	12
3.	The Danish employment system	13
3.1	Demographics	13
3.2	Industrial structure	13
3.3	The structure of the Danish labour market	14
3.4	Unemployment and marginalisation	18
3.4.1	Standard unemployment rates	18
3.4.2	Underemployment	21
3.4.3	Summing up on underemployment	22
3.5	The Danish labour market: some future trends	23
3.6	The Danish IRS-system	24
3.7	Labour market education and training	27
3.8	The main characteristics of the Danish employment system	27
4.	The macro-economic environment	48
4.1	Changes in demand and production	48
4.2	The external balance	48
4.3	Wages and prices	49
4.4	Summary	49
5.	The new labour market policy of the 1990s	55
5.1	An overview of Danish labour market policy	55
5.2	Recent development in labour market policy in Denmark	56
5.3	Regionalisation of policy design and implementation	57
5.4	The regulatory environment for activation	58
5.5	The paid leave arrangements (PLAs)	59
5.5.1	Paid leave arrangements, work sharing and job rotation	60
5.5.2	Employment effects of PLAs in the short and long run	60
5.5.3	Evaluations of the leave schemes	61
5.5.4	The leave schemes: Summing up	63
5.6	Effect evaluations of the new strategy	64
5.6.1	Evaluations of activation of the unemployed	64
5.6.2	Evaluations of the activities directed at the firms	65
5.7	Summing up the Danish experience	65
5.7.1	Regionalisation and involvement of social partners	65
5.7.2	The comprehensive approach	66
5.7.3	The functioning of the labour market	67
5.7.4	The broader perspective on labour market policy	68
6.	Any lessons to learn?	74
6.1	Explaining the fall in unemployment since 1994	75
6.2	The mix of factors behind the Danish employment miracle	77
6.3	Final remarks on transferability of the Danish experience	78
	Bibliography	80

Preface

This report contains the Danish contribution to ILO's programme on Country Employment Policy Reviews.

The report covers the subjects prescribed for all the country reports. However, the structure of the presentation is adapted in order to fit the special features of the Danish case.

In preparing the report, I have been much inspired by the advice of the project coordinator Peter Auer of ILO and have also received support from other ILO staff members in the form of statistical material. Also comments from the Danish Ministry of Labour, the Danish social partners and the participants in an ILO-workshop in Geneva in October of 1998 have been very helpful. However, responsibility for the final result lies, as usual, with the author.

Skælskør, December 1, 1998
Per Kongshøj Madsen

1. The Danish employment miracle in the 1990s

This chapter sets the stage for the subsequent analysis. It describes the performance of the Danish labour market both in the short and in the long run and outlines the structure of the following chapters.

Miracle #1: The fall in unemployment 1994-1998

In recent years, Denmark is more and more often referred to as a country where an employment "miracle" has taken place. When one takes a look at the official figures of the registered rate of unemployment, there is some justification to this view. Figure 1.1 shows the number of unemployed as a share of labour force from 1950 to 1999.¹ The figure depicts the strong fluctuations in the unemployment rate over the last five decades years. Since 1973 unemployment has been rising in the characteristic stepwise fashion which is also found in many other OECD-countries indicating hysteresis as being a prominent feature of current unemployment. Finally, one notes the remarkable fall in the unemployment rate over the last 3-4 years - from 12.3 percent in 1993 to 7.8 percent in 1997. Also in 1996, standardised unemployment in Denmark was lower than in the Netherlands, United Kingdom, Germany, Sweden and France. It is this dramatic recent development which has created the impression of an employment miracle in Denmark.

Other indicators supplement this picture of an impressive performance as far as the labour market is concerned. From 1993 to 1998, total employment has increased by 164,000 persons or 6.5 percent. Hereof, private sector employment accounts for 118,000 persons (a growth of 6.7 percent). The number of long-term unemployed has been halved², and the rate of youth unemployment is below 5 percent.

Figure 1.2 shows the strong growth in GDP, especially in 1994, and the growth in total employment catching un during the following years.

Added to the impression of an extraordinary success in creating a new start for employment and economic growth is the fact that the fall in open unemployment from 1994 to 1998 has taken place without the expected rise in inflation, cf. figure 1.3, which shows the growth in consumer prices and hourly wages in manufacturing from 1993 to 1999.

Finally, as shown in figure 1.4, the current upswing has led to a considerable improvement in the balance of the public budget, mainly due to the automatic effects on tax revenues from increase economic activity. On the other hand, the balance of payments has come under some pressure, due to the increased demand for imports following from the strong increase in internal demand.

While the development on the external balance and the public budgets follows the expected patterns of a macroeconomic upswing, the combination of a strong growth in employment, a halving of unemployment and stable inflation, seems to indicate that Denmark unlike most of the large European economies has overcome some of the trade-offs and conflicts usually associated with a long-lasting economic upswing. An important purpose of this report is to take a closer look at this development.

Miracle #2: The high employment rate in the long run

Furthermore - and to some observers maybe even more surprising than the current upswing - is the fact that the outstanding employment performance of the Danish economy is also of a longer term nature. *If one compares the employment rations of different OECD countries, Denmark has for decades had one of the highest shares of employed persons in the adult population, cf. figure 1.5 showing the employment rate of Denmark compared to a number of other OECD countries and figure 1.6 showing the Danish employment rate and participation rate from 1950 to 1997.* The main explanation for the growth in the Danish participation rate and the high employment rate compared

¹ The unemployment figure is based on registered full-time unemployment. Figures for 1998 and 1999 are forecasts from the Ministry of Economic Affairs (October 1998). In the remainder of this chapter the publication from the Ministry of Economic Affairs is used as the basic source for data on GDP, employment, external balance, inflation and public budgets.

² Measured by the number of unemployed which are unemployed for more than 80 percent of the year.

to most other countries is of course the high and rising participation rate for women, which again must be seen in close relation with the Danish welfare state creating the child-care institutions allowing the women to work and at the same time providing a supply of jobs for working women.

The purpose of this study

The purpose of this study is to take a closer look at the "Danish model". Has it developed some unique features which enables it to overcome the traditional obstacles of economic growth and the often assumed barriers to high employment in a welfare state? And is it furthermore possible to transfer some of the positive experiences from Denmark to other countries? What can be learned from the Danish case?

In the attempt to understand the specific factors behind the trends in the Danish economy and on the Danish labour market in recent years, the study first takes an overview Danish model of the welfare state (chapter 2). It stresses the important role of the welfare state in the production of services and describes the systems for redistribution and taxation in Denmark. Some old and new problems of the Danish welfare state model are discussed. Chapter 3 is the main contribution to make the reader understand the functioning of the Danish employment system. It presents the most important traits of the labour market, unemployment and industrial relations.

On this background, the following two chapters take a closer look at the changes on the Danish labour market since 1993. The macro-economic development is discussed in chapter 4 with emphasis on the role played by the combination of an initial fiscal stimulus to the economy and a strong growth in private demand mainly caused by a boom in the housing market. Therefore the special feature of the upswing was not the role played by the demand side, but the few signs of inflation which has until now been seen in spite of the return to strong economic growth.

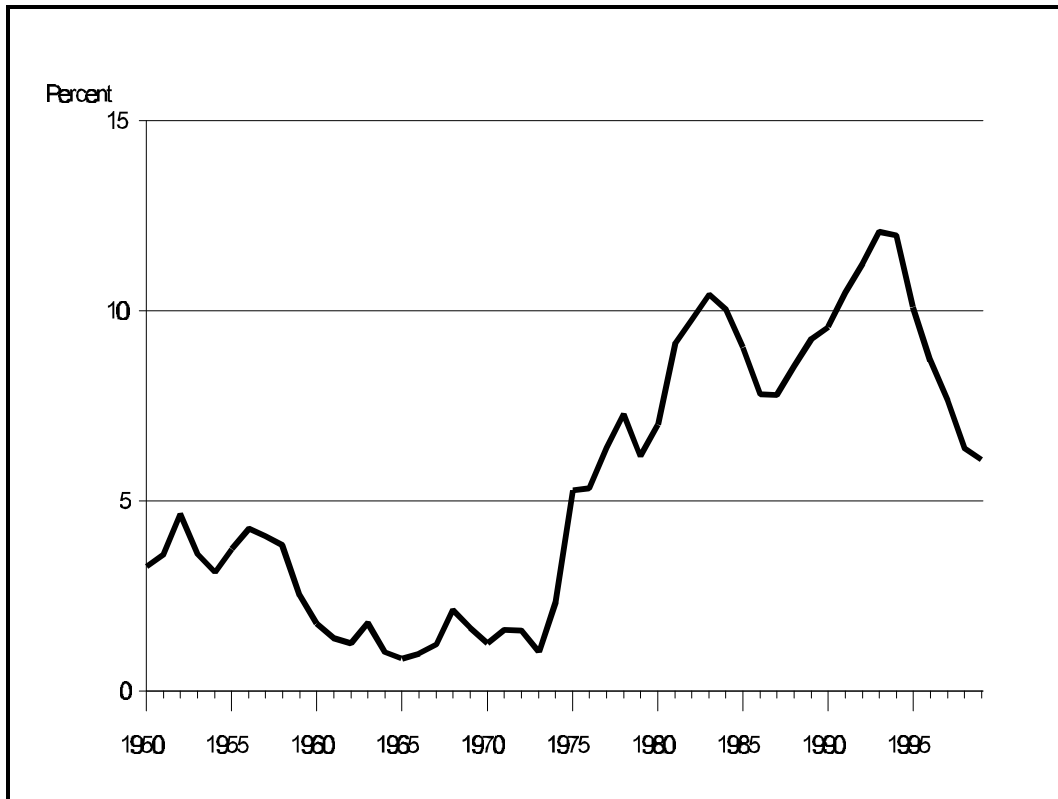
The main thrust in the analysis of the current upswing is put in the changes on the labour market and in labour market policy in recent years. In the first part of chapter 5, Danish labour market policy is presented both as far as content and processes are concerned. How is policy formed and what are the main elements? Chapter 5 then looks at the new active labour market policy of the 1990s with emphasis on the labour market reform of 1994. The content of the new policy is described focusing on both new instruments like job-rotation and new forms of design and implementation following from the strong decentralisation which was an integral part of the reform. The reform was followed by a comprehensive evaluation programme from which the main results of both micro- and macro evaluations are presented.

Finally, chapter 6 sums up the analysis of the report and presents some of the main lessons which may be useful also for other countries aiming at combining lower unemployment with stability in long-term economic development.

The data

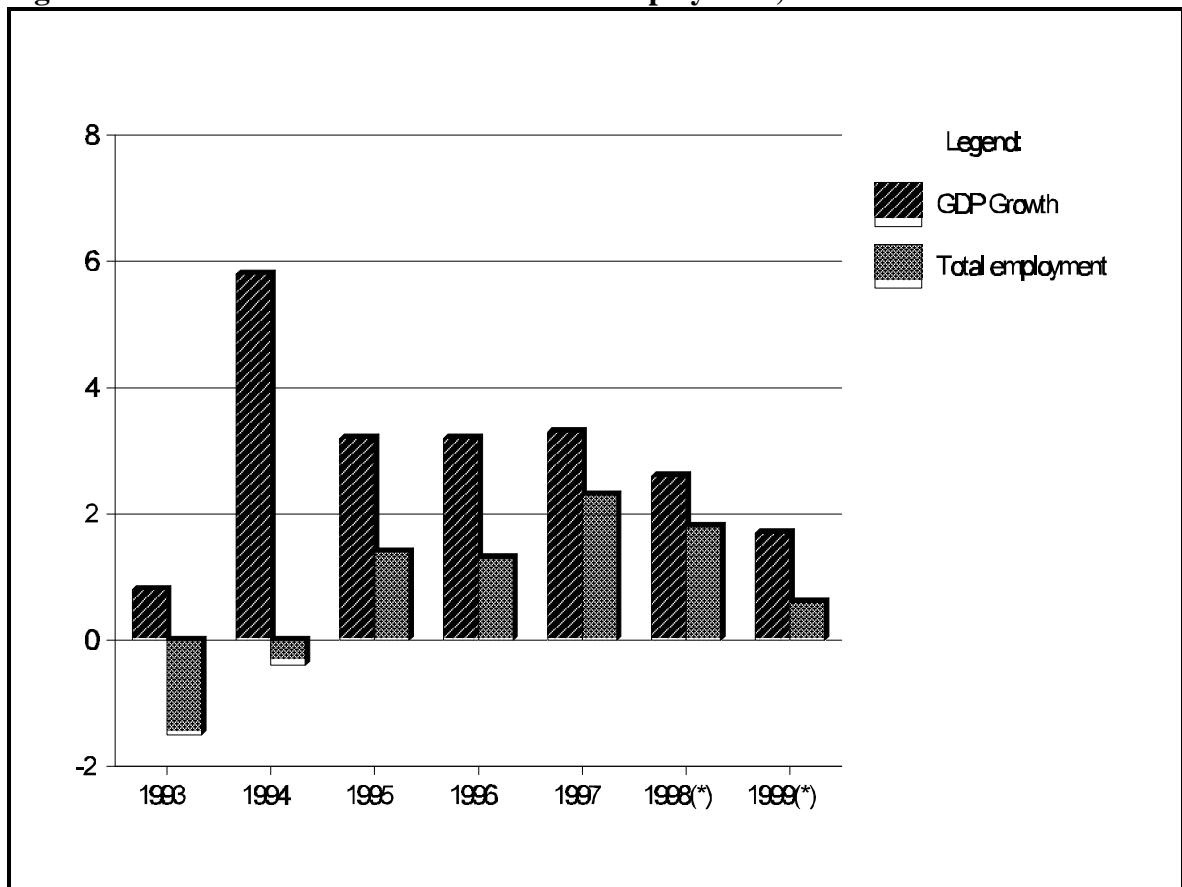
Part of the data used are taken from the CEPR-project data base provided by the ILO. These are referred to by CEPR and table no. Other data are taken mainly from Danish sources and are documented in the text. In general it has been attempted to update tables and figures in order to include data from 1997. In some cases however, even when more recent data are available from Danish sources than the ones cited in the CEPR-project data base, the latter has nevertheless been used in order to ensure the comparability with the other three country studies.

Figure 1.1: Registered unemployment as a percentage of labour force, 1950-1999.



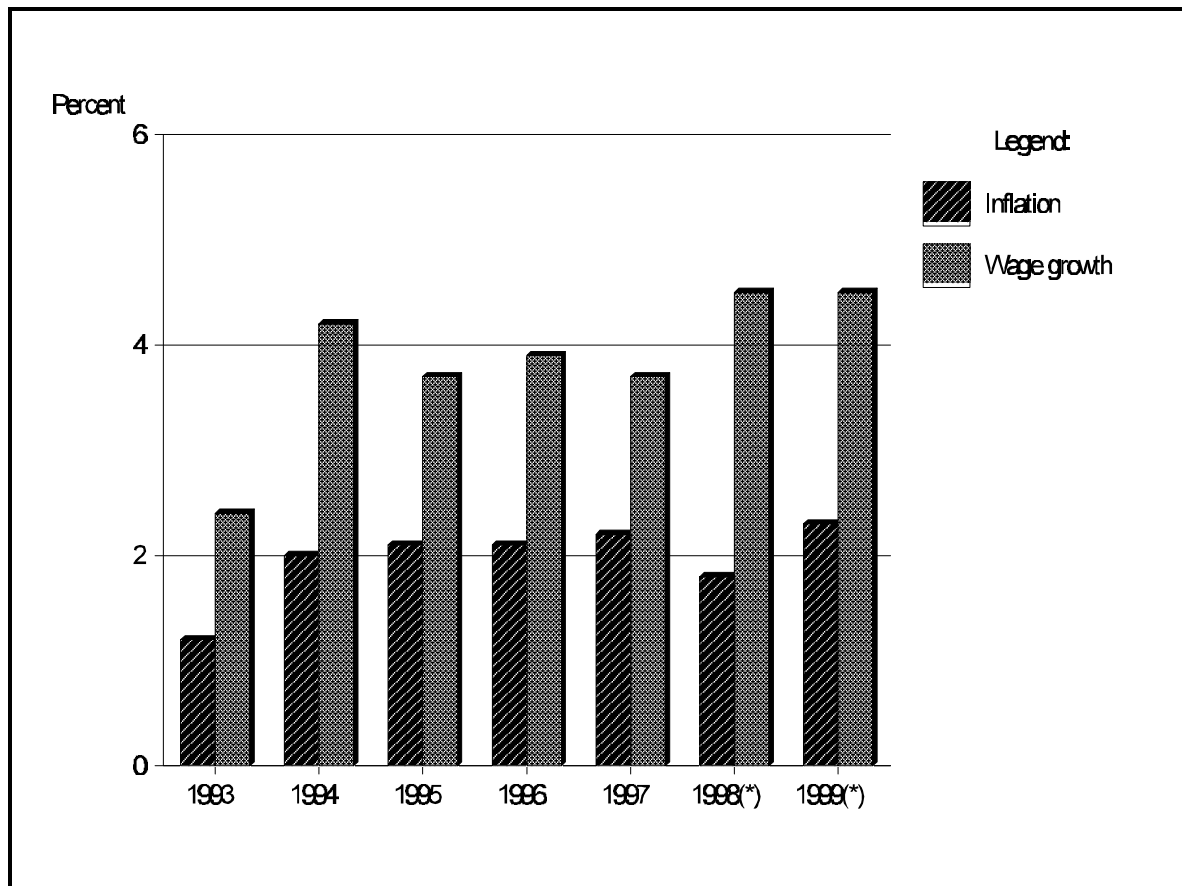
Source: ADAM's Data Bank and Ministry of Economic Affairs (1998), table 1.2. 1998 and 1999 are estimated values.

Figure 1.2: Growth rates for GDP and total employment, 1993-99.



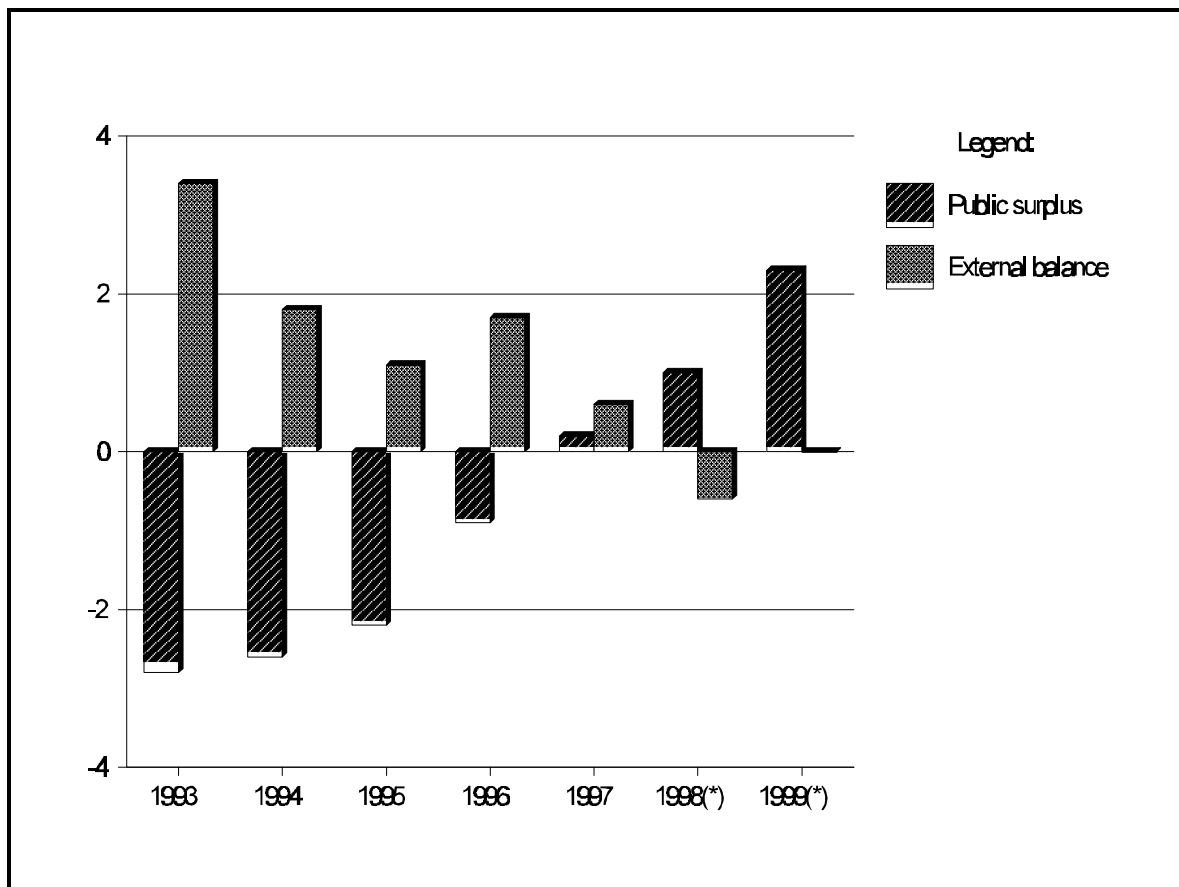
Source: Ministry of Economic Affairs (1998), table 1.2.

Figure 1.3: Inflation (consumer prices) and growth in hourly wages from 1993 to 1999.



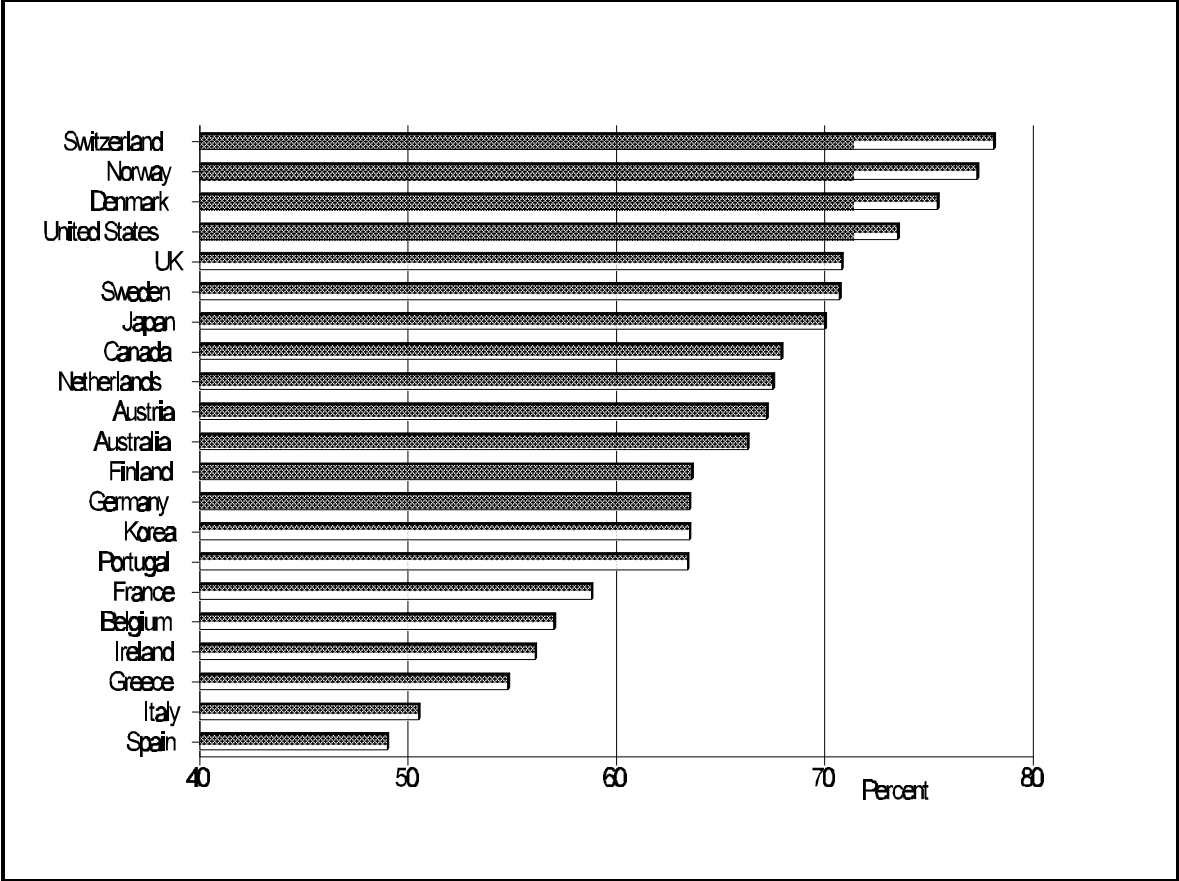
Source: Ministry of Economic Affairs (1998), table 1.2

Figure 1.4: External balance (balance of payments) and internal balance (public budgets) as a share of GDP, 1993-99.



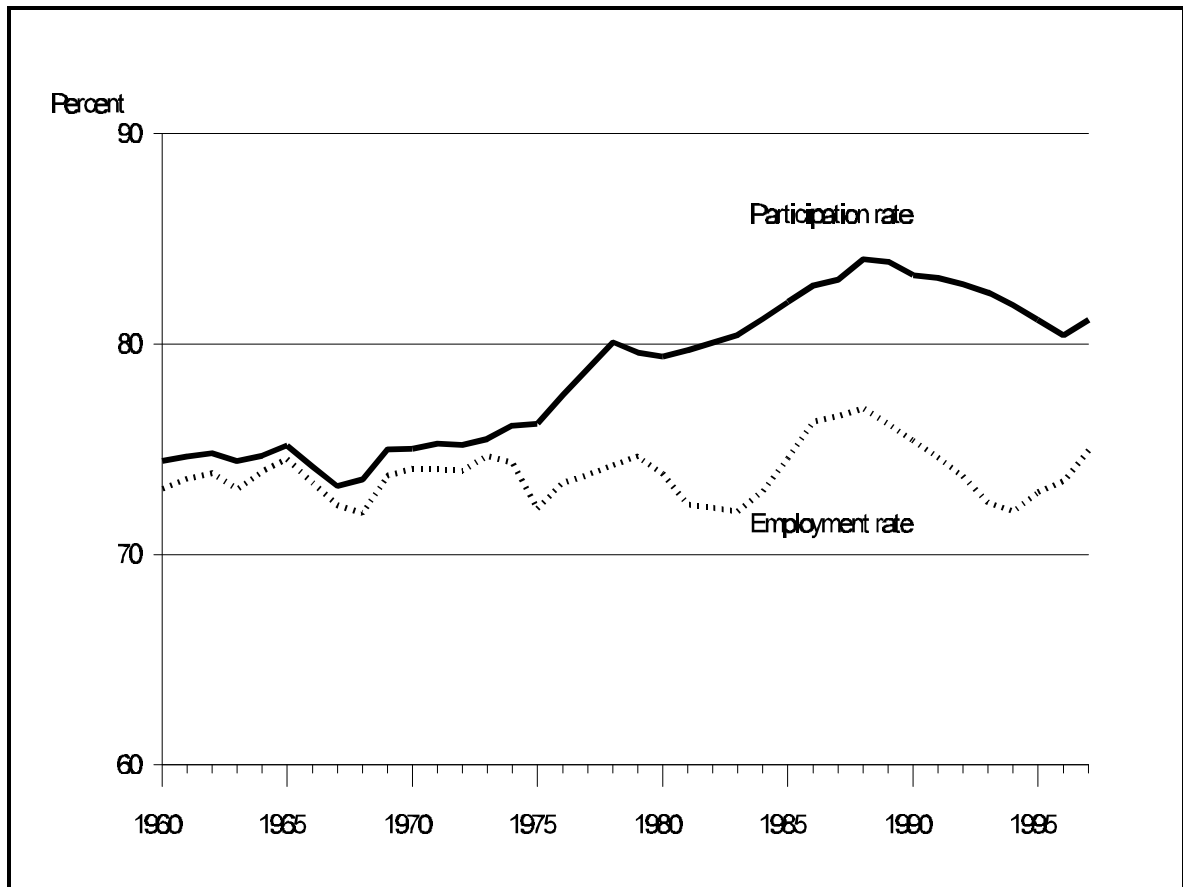
Source: Ministry of economic Affairs (1998), table 1.2.

Figure 1.5: The share of employed persons in the age group 15-64 years, 1997.



Source: OECD (1998), table B.

Figure 1.6: The Danish employment/population ratio and the participation rate (work-force/population) for age groups 15-64 years, 1950-97.



Source: ADAM's databank.

2. The Danish model of the welfare state

The Danish welfare state is often presented as an example of the so-called "Scandinavian welfare state model" involving:

- * the basic ideal of wanting to establish a distribution of resources which differs from the distribution created by the market;
- * the "principle of universalism" implying that all citizens are eligible to the same basic level of social welfare, education, housing, health services etc.;
- * the "principle of compensation" implying that handicapped members of society should be entitled to economic assistance making them able to live a normal life;
- * the use of a general taxation system to finance the expenditures of the welfare state;
- * the high degree of unionization of the labour market and the corporative character of the political system dominated by Social Democratic Parties.

However, the Nordic countries do to some degree differ from one another in the way, in which their welfare states are organized. Thus, three outstanding aspects of the Danish model are:

- * the heavy reliance on direct income taxation in financing the public sector, while social contributions play a minor role;
- * the tradition for having wages and work conditions determined by collective negotiations and few examples of legal regulations of the labour market; thus labour market policy traditionally is less interventionist than for instance in the Swedish model;
- * a high degree of market conformity and a "liberalistic style" as far as economic policy, industrial policy, incomes policy etc. are concerned.

With respect to social, political, religious and cultural values, the Danish population is characterized by a high degree of homogeneity. Thus, in 1997, only 6.4 percent of the population were immigrants or descendants of immigrants, whereof about half were from less developed countries. In 2020 these shares are expected to rise to 13.1 and 7.9 percent respectively.³ To this can be added a political system with proportional vote which leads to a large number of parties in the Danish Parliament and - following from that - a long history of minority and coalition governments having to implement their strategies through political compromises.

The rest of this chapter deals with the perspectives for the development of the Danish version of the "Scandinavian model". It also discusses the consequences of the closer integration of Denmark with the rest of the EU-countries both politically and economically. The main points to be stressed are the effects of tax harmonization and of increased international mobility of labour. But firstly, the next section deals with some "stylised facts" of the Danish welfare state.

2.1 The stylised facts of the Danish welfare state

In Denmark, the public sector accounts for approx. 31 percent of total employment. Public consumption constitutes about 40 percent of total public expenditure. This is caused by the fact that the Danish public sector is responsible for the production of the vast majority of services in the areas of social security, health and education. Thus in the Danish model, the welfare state takes care of these important areas by producing and delivering the services itself, instead of letting institutions in the private sector take the responsibility for producing for instance health services. By example, private hospitals are very rare in Denmark.

The other large expenditure on the public budget, apart from public consumption, are income transfers to households. They account for about one third of total public expenditures. The public sector is responsible for payments to old-age pensions, unemployment benefits, social security, housing allowances, child allowances etc. A characteristic feature is that these payments are made out of the

³ Cf. *Statistiske Efterretninger, Befolkning og valg*, 1997:16, tables 15 and 17. The forecasts are based on unchanged patterns of migration compared with today and a gradual convergence between the fertility of immigrants and non-immigrants.

general public budget and only in a few cases and to a limited extent financed by individual contributions. This is the case even for some areas like unemployment benefits where unemployment insurance is organised by private unemployment insurance funds. Also here contributions from the individual members only covers about 15 percent of total expenditure.

A consequence of the universalistic nature of the Danish model is furthermore, that the rights for the individual citizen as far as pensions, health care etc. are concerned, are not related to the individual's labour market history, but basically are rights for all Danish citizens and others with similar status living in Denmark.

The share of the population receiving transfer income has increased dramatically in the last 30 to 40 years. Thus in 1960, 189,000 persons or 6 percent of the adult population (aged 15-64) lived on some form of transfer income (unemployment benefits, social security, early retirement pensions etc.) or were activated in labour market programmes. In 1994 this figure had risen to 1,018,000 persons or about 29 percent of the adult population.⁴ In the debates about the future of the Danish welfare state, this figure not surprisingly plays an important role. During the same period the share of the economically active population of the adult population has been remarkably stable (approx. 73 percent). *Thus the growth in the number of persons on transfer income mainly reflects a change from informal support of the economically inactive (in the family) to support by the public sector.* Forty years ago, the family was the economic base of those adults not having their own income. Today the economic base is the public sector. In many respects this change, which is closely related to the increased participation rate of women, is one of the most dramatic changes in the Danish society over the last decades.

Most of the activities of the Danish welfare state are financed by general taxation. In 1994 total tax revenue amounted to a little more than 50 percent of GDP. Of total tax revenues, approx 61 percent stems from direct taxation, mostly from personal income taxation. Indirect taxes account for about 32 percent of total revenue. Here the main source is the VAT. Contributions to social security amounts only to about 3 percent of the total income of the public sector. The same goes for corporate taxation. In recent years the so-called "green taxes" on energy consumption etc. had played an increasing role, but still cover only a limited share of total taxation (approx. 5 percent)

As a consequence of the high level of income taxation, average and marginal income tax rates are rather high. Thus average tax rates (including social security contributions) for typical incomes and family situations vary between approx. 37 and 53 percent (CEPR data bank). The marginal taxation rate for a typical production worker (according to OECD-figures) is approx. 55 percent (1994).⁵

With both high marginal income tax rates and high VAT-rate (25 percent), the resulting "tax wedge" is generally considered the strongest driving force behind both undeclared work and do-it-yourself activities. Even at a price in the "black economy" of about 50-60 percent of the "white" price, the resulting net income for the seller will be higher when not declaring the transaction. The total number of hours worked in the black sector is estimated to about 100,000 jobs in 1994. This can be compared to a total employment in Denmark of 2,585,000 persons in 1994. Measured as a share of GDP, the black economy is estimated by G. Viby Mogensen (1995) to 3.1 percent in 1994.

Also the combination of high marginal tax rates even for low-income groups and a high level of compensation in the unemployment benefit and social security system implies that the individual economic incentives to leave unemployment are often limited. Thus a recent study from the Danish Rockwool Foundation estimates that in 1996 10 percent of the employed members of unemployment insurance funds would have a higher income as unemployed than as employed. For unskilled workers the share is about 20 percent (Smith, 1998, Table 7.4). The same report also shows that between one-

⁴ Own calculations based on Velfærdskommissionen (1995), table 6.2. The persons are measured in full-time equivalents.

⁵ Danish Government (1997), p. 100.

third and one-quarter of the unemployed do not expect an improved economic situation, if they get a job (Smith, 1998, Table 7.7).

2.2 Internal problems of the Danish welfare state

Long before the discussion of the external pressures on the Danish welfare state, a critical debate had started focusing on a number of internal problems:

- * the high tax burden leading to tax evasion, tax resistance and incentives for the black economy;
- * the high and rising share of the adult population receiving public income transfers;
- * the discouragement of individual "self help" in fields like job search, private saving and health care;
- * disruption of social networks;
- * demographic factors implying increasing costs of the welfare state due to the ageing of the population.

The reactions to this critique of the welfare state - formulated not only by conservatives but by members of most political parties - has been to somewhat reform and "roll back" the Danish model through tax and pension reforms, increasing user fees and introduction of some elements of "work for welfare" in the social sector.

2.3 Economic integration and national macro-economic policy

As is well known the closer integration of Denmark in the EU has been a slow and long-lasting process. Basically the process of integration has been economic in its character. The opening of markets of goods, services, labour and capital to international competition and mobility has been a key feature. But as it is well known from the theories of international politics, there are close bonds between economic and political integration and integration in different areas of society.

One important consequence of increased mobility of capital is the need to choose between either floating or "forever fixed" foreign exchange rates. With capital freely floating across the borders of a country, the use of strategic devaluations from time to time to adjust for diverse developments in wages and prices becomes less feasible. The pressure from speculative capital movements driven by even the slightest rumour of exchange rates adjustments, will make political control of the exchange rate impossible. *Faced by the two alternatives mentioned, Denmark has since the early 1980s chosen the option of the "forever fixed exchange rate", and thus skipped exchange rate policy from the arsenal of instruments of economic policy. This also implies giving up national monetary policy.*

With the increased mobility of goods, services and factors of production, differences in taxation levels are more difficult to uphold. The demand for international tax harmonization puts tight restrictions on national fiscal policy.

Closer economic integration therefore leads to a situation, where national macro-economic policy is restricted to various forms of incomes policies, which can then be supplemented by sectoral policies like industrial policy, labour market policy and educational policy. *A characteristic feature of economic policy over the last 15 years therefore has been an increased focus on changes in economic structures rather than on fine-tuning effective demand.*

2.4 Fiscal pressure on the Danish model

As mentioned, increased mobility of goods, services and factors of production leads to a pressure to harmonize tax rates across borders - a pressure which will increase with the mobility of the tax base.

Among the EU-countries, Denmark has a very high over-all tax pressure and - furthermore - a different distribution of the individual tax forms. Direct income taxes and indirect taxes play a very large role in Denmark, while direct contributions to social security and pensions are small. There is therefore a significant downward pressure on both indirect taxes and income tax rates - a pressure which has already led to lowering of some rates of indirect taxation (e.g. on wine, beer and perfume). Also a tax-reform implemented from 1995 and onwards implies lower marginal rates of income taxation and the

introduction of a "gross income tax", which has some similarity to a social contribution paid on the basis of earned income.

This downward pressure on taxation has led, however, to a situation where most discussions about increasing the quantity or even the quality of the traditional services of the Danish welfare state has ceased. Restraint in public expenditure and demands for productivity improvements in public services are the words of the day. *Thus, the fiscal stress is a major restriction on the future development of the Danish welfare state.*

2.5 Social dumping and social migration

A fundamental feature of the Treaty of Rome was the free movement of labour in the European Community. It has taken many years to remove the formal obstacles to the mobility of labour and a totally free labour market within the EU is still not established.

The actual mobility of labour has however until recently been low. The present efforts to extend free mobility to all citizens of the EU - and not just labour - may change this situation. Increased mobility is expected for highly educated labour and for labour in the sectors with a tradition for a high mobility within individual nations like construction and transportation. Added to these expectations are the considerations related to the immigration pressure from the European countries in Eastern Europa and South of the Mediterranean.

The implementation of the Single European Market has lead to a fear on behalf of the Danish trade unions - and other trade unions in Northern Europa - that their members will meet increased competition from workers in Eastern and Southern Europe, where wages and conditions of work are inferior to the levels in Northern Europe. *Social dumping* has been the central concept of this debate. Special emphasis has been put on the differences in wage structure between Denmark and the other EU-countries, the point being that the dispersion in wage-levels is much smaller in Denmark. This could lead to severe employment difficulties for unskilled Danish workers. It could also mean a tendency for highly educated labour to migrate out of Denmark.

Another aspect of this evaluation of increased mobility is related to the concept of *social migration*. The underlying idea is that EU-citizens will tend to move around in the Community, not driven by forces of supply and demand on the labour market, but by the rules for becoming eligible to public services and transfer income. The more you increase the potential mobility of all EU-citizens, the more difficult it will be to have very different welfare-state systems coexisting in the Community.

Moreover, special pressure will be put on the welfare states, which are having the principle of universalism as their outstanding feature. Some sort of rationing will have to be established, e.g. by increasing user fees or by relating eligibility to individual contributions paid to pension systems and social security systems.

This is the second pressure on the Danish model - the pressure on the principle of universalism stemming from the increased mobility of persons across the European borders.

2.6 Summing up

The Danish version of the Scandinavian model expresses a fundamental duality in the sense that it combines a large public sector responsible for the production of the majority of welfare services (like health and education) with a rather liberal attitude as far as the functioning of the market economy is concerned. The goal of a equal income distribution is then fulfilled at a later stage through an extensive system of income transfers.

Considering the vast scepticism concerning the model's sustain ability in an internationalised economy expressed from both national and international quarters over the last decades, the Danish model has shown a remarkable ability to survive and even flourish in later years. One possible set of explanations for this situation are related to some specific traits of the Danish employment system. Therefore the following chapter takes a closer look at the Danish employment system.

3. The Danish employment system

3.1 Demographics

Measured by the size of its population Denmark is a small country. In 1997 the population was 5.25 mio. persons, an slow increase from 4.25 mio. in 1950 and 5.12 in 1980. Like in most other countries in Western Europe, the population is expected to be stable over the coming years. Recent forecasts estimate a slight increase to 5.5 mio. in 2025.

During the same period, the age composition of the population will change considerably. The share of persons above 59 years of age will grow from 21 percent of the population today to 26 percent in 2025 - or by 300,000 persons. The share of young persons below 19 years of age will be stable (22 percent), while the share of adults in working age will fall.⁶ This observation - together with the rising share of adult persons living on transfer income - has of course caused concern for the increasing burden being put on the economically active part of the population. The main reactions has been a call for greater private saving to finance old age pensions in the future combined by attempts to increase the age of retiring from the labour market and to create more opportunities on the labour market for the hard-to-place, who are now being marginalized to become recipients of transfer income.

As already mentioned in chapter 2, immigrants constitute only a minor part of the population. In 1997, 6.4 percent of the population were immigrants or descendants of immigrants, whereof 3.3 percent were from less developed countries. In 2020 these shares are expected to rise to 13.1 and 7.9 percent respectively.⁷

3.2 Industrial structure

Two aspects are important in describing the industrial structure in Denmark. One is the rapid transformation since the second world war from the primary to the secondary and tertiary sectors. Table 3.1 gives an impression of these changes, which reduced the share of population in the primary sector from 25.7 percent in 1950 to 5.0 percent in 1994. Behind these changes are of course also dramatic changes in the distribution of the population between rural and urban areas as the employment changed towards the private and public service sector, which increased from 7.9 percent in 1950 til 31.4 percent in 1994. In only four decades Denmark was transformed from an economy dominated by agriculture and industries related to agriculture to a service economy with a public sector responsible for almost one third of total employment. However, the historical importance of the agricultural sector is still reflected in the high share of industry taken up by firms related to agriculture and in the large share agricultural products in total exports.

Another important aspect of the Danish economic base is the dominance of small and medium sized enterprises in the private sector. In manufacturing only 30 percent of total employment in 1987 was in firms with more than 500 employees. This can be compared to Sweden of Germany where the similar share was 53 percent. Almost 60 percent of the workplaces in manufacturing industry in 1990 had less than 20 employees.⁸ This size structure is important for understanding also some of the aspects of the Danish employment system and the interplay between the labour market and the public sector. We shall return to this point below.

⁶ *Arbejdsmarkedspolitisk rapport 1996*, Arbejdsministeriet, s. 18-19.

⁷ Cf. *Statistiske Efterretninger, Befolkning og valg*, 1997:16, tables 15 and 17. The forecasts are based on unchanged patterns of migration compared with today and a gradual convergence between the fertility of immigrants and non-immigrants.

⁸ Hans Linderoth et al: *Beskrivende økonomi*, 4. udgave, København 1993, p. 156.

A final point to note about recent developments in the economic structure are the changes in relation to the energy sector. At the beginning of the first oil-crisis Denmark was still heavily dependent on imported energy and thus suffered from the drastic increase in oil prices. Due to the rapid increase in the supply of oil and gas from the North Sea (and to a lesser extent the increase in "alternative" energy (wind-power etc.) Denmark is now a net exporter of energy. These windfall gains from oil and gas in the North Sea have had important positive effects on the balance of payments.

3.3 The structure of the Danish labour market

Based on data from the CEPR-project data bank, figure 3.1 depicts some basic information on the Danish labour force.

From 1980 till 1996 total working-age population increased by 6.8 percent. Both employment and unemployment increased by approx. 5 percent, while the number of persons in inactivity grew by almost 14 percent. As discussed in chapter 2, this increase is part of a long term trend in the way in which the economically inactive persons are supported - moving from being supported by the family to being recipients of public transfer income.

In 1996 the share of women in total employment was 45 percent, the result of a steady increase in female participation rates in the postwar period. Only 9 percent of those employed were employers and self-employed. This group has shown a steady decrease in the last decades - mainly as a consequence of the decline in agriculture.

Employment and employment rates

The strong business cycle in total employment in Denmark is clearly shown in figure 3.2, which especially points to the sharp recovery since 1994 in the Danish economy. Also in 1997, total employment has continued to rise.

An important structural aspect of Danish employment is shown in figures 3.3 and 3.4, which describe the employment/population rates by gender and age.

Looking first at figure 3.3, it shows the very high employment ratio found on the Danish labour market. It is the highest found among the four countries in the present project and indeed among the highest in the whole OECD-ration. The ratio is high for both sexes and especially for women still shows an increasing trend.

The age distribution shown in figure 3.4 indicates first of all some clear generational effects. For the younger generations, the employment ratios of the two sexes are very close, whereas they differ more for the older generations. Also, the employment ratios of the older workers are strongly influenced by the unemployment pension which is open for most workers over the age of 60 (cf. below).

Detailed information based on Danish sources on activity rates are given in table 3.2 showing time-series for participation rates (occupational activity rates) measuring the share of the population in the respective age groups which are members of in the labour force.

Both series indicate some rather drastic changes in labour market participation over the last 35 years. For men average participation has been steadily declining, except for the youngest groups. The decline has been very strong for those above 65 years and for those aged 45-64 years. The main explanation for this development is the introduction in 1979 of an early retirement scheme for members of unemployment insurance funds over 60 years of age and - more generally - an increased number of persons on social welfare and social pensions.

For women the general trend is the opposite. For all age groups - except the oldest - there is an increase in work force participation. For age groups between 25 and 64 years, the participation rates doubles from 1960 til 1990. Then the trend levels out. *For the age group of 25-*

44 years, the participation rate in 1995 for women is only 6 percentage points below the participation rate for men.

The main - and interrelated - explanations for the growth in the female participation rate are:

- * the increased educational level of women;
- * the growth in the public sector which both is an important employer of female labour and provides the services (child care etc.) which is a precondition for a large number of women on the labour market;
- * the changing family patterns and social values that gives higher priority to equal opportunities - and obligations - for men and women.

Self-employment in Denmark

The traditional form of self-employment in Denmark - as in other countries - is the farmer, craftsman or owner of a small shop, who apart from himself employs his wife and maybe a few workers besides. Along with this traditional group of self-employed, one also finds the large and growing group of traditional professionals like doctors, lawyers, accountants and architects. They are often self-employed, but new forms of organisations are advancing like large - often international - accounting and consulting firms.

However new forms of self-employment are becoming more prominent also in other areas. Firstly a number of producers of business services (advertising, computer software etc.) are organised as self-employed more or less along the same lines as the traditional professionals. But secondly, also a growing number of self-employed are working under conditions very similar to wage-earners in the sense that their business relationship is with only one firm and their main supply of services is their personal labour. Finally, as a special case of self-employment one may add some of the activities in the informal economy, where there is no employer-relationship between the supplier and the user of the services exchanged.

In 1997, out of a total workforce of 2.9 mil. persons, there were approx. 239,900 self-employed and 19,500 spouses of self-employed working in the family business. As a proportion of total employment, self-employment has been steadily declining - from 12.7 percent in 1983 to 9% in 1997. This change is closely related to the continuous fall in agricultural employment mentioned in section 3.2.

Working time patterns

Data on part-time work are generally hard to compare. The data from the CEPR-project data bank (table 6) shows an average part-time employment ratio for 1996 of 16.5 percent (10.2 percent for men and 24.2 percent for women), when part-time is defined as working less than 30 hours per week. The share of part-time workers has decreased from 23.8 percent in 1983 as a combined result of a rising share of men and a falling share of women working part-time.

When based on the employees own classification of their working time, the labour force surveys for 1996 reports a part-time share of 21.5 percent (10.8 percent for men and 34.5 percent for women). The trends found since 1983 are the same as above (CEPR-project data bank, Table 7).

More detailed information on the distribution of normal weekly working hours for men and women in 1995 is shown in table 3.3. The data are taken from surveys conducted by Statistics Denmark in February and March of 1995. For both men and women, the largest share of the employed work 37-38 hours per week. However, one-third of the men work longer hours, while very few work part-time. For women a large minority (34 percent) work either long or short part-time. Also, a significant proportion (15 percent) normally work more than 38 hours.

For both men and women, there is a clear correlation between the distribution of normal working hours and occupational status. Self-employed and upper level salaried employees

generally work the longest hours. However, (unskilled) manual workers tend to work somewhat longer hours than lower level salaried employees. The data in table 3.2 therefore indicates the importance of controlling for occupational status when comparing the distribution of working hours of men and women.

To compare various data sources on normal working hours, table 3.4 shows the distribution of normal working hours, but now taken from the quarterly labour force surveys (also conducted by Statistics Denmark). The published data does not include a distribution of normal weekly hours by both gender and occupational status.

As can be calculated from the first section of table 3.3, women now constitute almost half (45 percent) of the total workforce and 36 percent of the workforce working 37 hours or more.

This percentage distribution of the employed men and women by weekly working hours in the second section of table 3.3 shows the same general tendencies as in table 3.1. The typical working time is 37 hours, which is also the standard working time in almost all the collective agreements. However for men and women the tails of the distribution differ. A large minority of the women (41 percent) work less than 37 hours. For men a large group (39 percent) normally work longer hours than 37 hours.

Job mobility

One of the paradoxes of the Danish labour market is way in which it combines a high level of mobility between jobs with being imbedded in a welfare state of the Scandinavian type.

Looking first at job mobility, there are few regulations to the hiring and firing practices of firms. For blue-collar workers, the regulations are found in the collective agreements, while special legal regulations give some protection to white-collar workers, to persons on maternal leave etc. But in most cases, an employee can be dismissed with a notice of a few days or weeks. Thus, in OECD's Jobs Study (1994, table 6.5) Denmark is ranked as no. 4 on a sample of 16 OECD-countries when it comes measuring the degree of protection against dismissals (rank no. 16 indicating the highest level of protection). In the sample, Denmark is only surpassed by the UK, Ireland and Switzerland.

The high level of job mobility is also expressed in the available data for job-openings. About 40 percent of all jobs - or approx. 1 mio. jobs - are opened every year (Vejrup Hansen, 1994). There is some cyclical variation in this number, but the high level is maintained over the business cycles. Also the rate of job openings vary across sectors, being low (approx. 38 percent) in the public sector and higher in sectors like construction (50 percent) and agriculture (67 percent). Also across the different kind of jobs (measured by occupational categories) there is some variation in job openings.

Another indicator of the high mobility on the Danish labour market is found in a recent investigation by the OECD (1997)⁹. Figure 3.5 shows the distribution of employees by tenure in a number of OECD-countries.

Measured by average tenure, Denmark is in the low end together with countries like UK and USA. If one looks solely at manufacturing industry, Denmark stands out even more with an average tenure *lower* than both UK and USA (Smith, 1998). This is in strong contrast to the other Nordic countries and a number of continental countries with high levels of protection against dismissals.

One should think that this high level of job-mobility would lead to a widespread feeling of job-insecurity among the employees. Paradoxically this is not the case. As seen from figure 3.6, the share of Danish workers *not* strongly agreeing with the statement "my job is secure", in 1996 was considerably lower than in all the other countries in the sample. Though this might also reflect

⁹ The data have previously been discussed in a Danish context by N. Smith (1998).

the positive situation on the Danish labour market at the time of the survey, there are no clear indications that the Danish workers are reacting to the high level of flexibility with a strong feeling of insecurity.

There are at least two explanations to this fact. One is the predominance of SMEs in the Danish industrial structure implying that strong internal labour markets are less important than in other countries. It is easier to shift from one firm to another. The other explanation is the relatively generous unemployment benefits paid to unemployed workers from the first day of unemployment and for a considerable time period (cf. below).

A final indicator of the general flexibility of the Danish labour market is the low share of persons with temporary contracts. Thus in the 2. quarter of 1997, 89 percent of all employees had no time limit in their employment contracts. The remainder were trainees of various kinds (5 percent) or substitutes and "misc." (6 percent).¹⁰

This combination of a high level of job mobility with a safety net provided by rather generous unemployment benefits is one of the features of the Danish employment system which is relevant in understanding its specific characteristics in relation to employment generation.

Wages

Two aspects of wage development are treated in this section. Firstly, it takes a look at wage growth over the last 16 years with emphasis on the development after the upswing in 1994. Secondly, wage dispersion is taken into account.

Wage benchmark statistics are shown in figure 3.7. Firstly, figure 3.7 clearly shows the transition from a high inflation to a low inflation economy which Denmark shares with the rest of the EU. Furthermore, one notes that the declining growth rates for *nominal* average earnings are combined with rising growth in *real* average earnings. Another important observation from figure 4.7 is the fact that neither wage nor price inflation seem to have increased during 1995 and 1996 in spite of the economic upswing and the dramatic decline in open unemployment.

Concerning wage dispersion, recent information is not available. Based on OECD (1996), the impression is that the dispersion of the incomes of full-time employees is relatively narrow compared to other countries and has become more equal in Denmark from 1986 to 1991, while there has been a trend toward greater inequality in a number of other countries (including the UK and USA). Stability or a slight change towards a more equal earnings dispersion in Denmark is also the impression from the CEPR-project data bank (table 29).

The narrow dispersion and stability of relative earnings is often seen as an inherent feature of the Danish labour market explainable by (i) the fact that wage negotiations are often made in relative terms (that is relative to similar groups on the labour market) and (ii) that the level of unemployment benefits act as a floor to wages at the lower end of the wage dispersion. Furthermore the narrow dispersion in wages in Denmark is also sometimes explained by a narrow dispersion in the Danish skill-structure.

The unemployment benefit system

Income support for unemployed persons in Denmark is based on an institutional framework, which divides the unemployed into two groups. The majority (85 percent) are *members of an unemployment insurance fund*, which is a private organisation normally with close links to a trade union. To qualify for unemployment benefits a member must have had ordinary (unsubsidised) employment for more than 52 weeks within 3 years. Benefits are equal to 90 percent of previous wage-income with a maximum of 136.000 DKK a year. The resulting average compensation rate for all unemployed is 65 percent.

¹⁰ *Statistiske Efterretninger* 1997:31, Table 8.

While the unemployment insurance funds are formally private organisations, the major part of their expenses (in 1996 approx. 80 percent) is paid by the state. Unemployment benefits are not means tested. The responsibility for activating the insured unemployed lies with the regional Labour Market Boards, which are funded by the Ministry of Labour.

Those unemployed who are *not* eligible for unemployment benefits are the responsibility of the local municipalities. Based on means testing, they may receive social security at a level which for persons with children will be about 80 percent of maximum unemployment benefits. Activating the group of non-insured unemployed is also the responsibility of the municipalities.

Both for insured and non-insured unemployed there are special rules for the young (< 25 years) and for the older age-groups. Typically young unemployed receive lower benefits or social security and are activated after a shorter period of unemployment.

Also, as discussed further below, there are close links between the functioning of the unemployment benefit system and active labour market policy.

GDP and employment growth

Not surprisingly the growth in real GDP and in employment are closely correlated as also indicated by chart 5 of the CEPR-project data bank. The first years of the present upswing (1993-94) seem to be an exception in the sense that employment growth lagged behind GDP-growth, but then caught up in 1995-96. A closer look at the composition of employment growth shows an increase in both private and public employment. In general there are no indications of "jobless growth" in the Danish case.

3.4 Unemployment and marginalization¹¹

This section takes a closer look at the Danish unemployment figures. It also discusses the extent to which these figures are influenced by the take-up of active labour market policies. It therefore has to briefly introduce some of the programmes of labour market policy, which are further discussed in the following chapter.

3.4.1 Standard unemployment rates

The differences between the labour market statistics based on register data and on labour force surveys is central when one wants to interpret the Danish unemployment statistics. This section first present the unemployment statistics based in register data and then takes a look at the results from the labour force surveys.

Registered unemployment

The figure on unemployment normally cited in the Danish media and used as target for economic policy is the number of registered unemployed (often presented as a share of the workforce). This figure measures the number of persons having registered themselves as unemployed with the Labour Offices and declared that they are actively looking for work. The majority of these registered unemployed (approx. 85 percent) will be members of an unemployment insurance fund and registration is a precondition for receiving unemployment benefits. The remainder are unemployed recipients of social security who will also be encouraged to register at the Labour Office, but some under reporting may occur for this group. Unemployed activated in labour market programmes or participating in one of the three schemes for paid leave are not included in the number of registered unemployed (cf. below).

¹¹ Section 3.4 is a revised version of the author's contribution to TRENDS no. 30.

The rate of unemployment

Figure 3.8 (identical to figure 1.1) shows this traditional measure of total unemployment (unemployed as percentage of labour force) for the period from 1950 to 1997. The figure depicts the strong fluctuations in the unemployment rate over the last fifty years. Since 1973 unemployment has been rising in the characteristic stepwise fashion which is also found in many other OECD-countries indicating hysteresis as being a prominent feature of current unemployment. Finally, one notes the remarkable fall in the unemployment rate over the last 3-4 years - from 12.3 percent in 1993 to 7.8 percent in 1997.

The degree of unemployment

The unemployment register enables Statistics Denmark to calculate not only the average number of registered unemployed during a given period (for example one year) but also to calculate the total number of persons affected by unemployment during a period and the duration of their individual unemployment. The relation between the average number of unemployed and the total number of persons affected by unemployment is of course a measure of the average share of the period, in which a person is unemployed. This share is called the *degree of unemployment*. As shown below, the degree of unemployment can be calculated as an average figure. One may also study the distribution of the unemployed from small to large degrees of unemployment.

Figure 3.9 shows the development of the number of persons affected by unemployment, the average number of unemployed and the degree of unemployment from 1982 to 1997. The latter figure is measured on the right axis. All three curves tend to move in parallel indicating that for instance a rise in the average number of unemployed can be attributed both to a rising number of persons being affected by unemployment and an increase in the average share of the year, in which each affected person is unemployed. Typically however, the relative change is larger in the degree of unemployment. One exception is found from 1996 to 1997, where the fall in average unemployment is solely caused by a falling number of persons having been affected by unemployment.

Flows in and out of unemployment

As seen from figure 3.9, around 750,000 persons - or more than a quarter of the workforce - are affected by unemployment every year. For the majority this is due to lack of work, but the contact with the unemployment insurance system may also be caused by holiday benefits (for persons not eligible for normal employer paid holiday benefits) or supplementary benefits (for part-time unemployed).

On average each unemployed is in the unemployment register for between 30 and 40 percent of the year. There is however a wide dispersion around this figure. For any given year one may calculate the number of persons having different degrees of unemployment. As shown in figure 3.10, a large number of those affected by unemployment (around 300,000 persons every year) experience only one or more short spells of unemployment. On the other end of the scale one finds the long-term unemployed which are unemployed for more than 80 percent of the year. This group numbered approx. 160,000 in 1994 but has diminished in recent years. In this relation, one can also note, at during the upswing from 1994 and onwards, there was actually an increase in the number of persons affected by short unemployment spells, while there is tendency for the number of persons with longer spells to diminish.

One important observation should be made when interpreting figure 3.10. The degree of unemployment is defined within one given calendar year. Thus a person becoming unemployed on July 1 and leaving unemployment on June 30 of the following year, will have a degree of unemployment of 0.5 in each of the two years. Furthermore, the unemployment spells measured in this statistics are affected by participation in active labour market programmes. Therefore the

statistics cited in figure 3.10 could underestimate long-term unemployment interpreted as a marginal position on the labour market for a longer time period. By example, a recent analysis published by the Federation of Danish Employers (DA) estimated that the number of long-term unemployed amounted to almost 135,000 persons in the 2. quarter of 1997, when one looked at the number of unemployed in that quarter who had *not* had a normal job for more than 30 percent of the last three years. Measured in this manner, the long-term unemployed as a share of total unemployment in the 2. quarter of 1997 was 43 percent.¹²

A recent study published by the Ministry of Finance (1997, chapter 4) presents more information on the extensive flows in and out of unemployment on the Danish labour market. Table 3.4 gives a survey on some main results. Between the two first quarters of 1997, the unemployment figure fell by 35,000 persons. However this was the net result of 139,000 persons moving in or out of unemployment from the first to the second quarter of 1997. This observation support the view that the Danish labour market is characterized by a very high mobility which of course also includes persons moving between various positions on the labour market without being affected by unemployment.

Standardised rates of unemployment

As mentioned above, administrative data are not collected for the purpose of research or international comparisons. Therefore, data from administrative registers have to be modified or special labour market surveys must be conducted. Since 1975 regular labour market surveys have taken place in Denmark. From 1984 the surveys have been made in cooperation with Eurostat. Also OECD and other international organisations use these data for international comparisons. The current surveys are based on a sample of 15,600 persons aged 15-66 years. From 1994 results have been published on a quarterly basis.

In figure 3.11, the number of unemployed from the Danish unemployment register are compared to the survey data from Eurostat published in *Employment in Europe*.

The number of unemployed reported in the labour force surveys is somewhat lower than in the unemployment register. The average difference over the period shown is 65,000 persons or 22 percent of the register data. The difference increased in 1994-95, but is now back to the relatively low level of the early 1990s.

The main explanation for the difference between the two sources of data is probably that in the surveys the persons without work are asked, whether they have actively been looking for work within the last four weeks and can start a job within two weeks. A number of the persons in the unemployment register may reply negatively to these two questions for a number of reasons. Some of them may be waiting to participate in a training course or a leave period. The increase in the difference between the two series in 1994-95 may thus be explained by the introduction of schemes for paid leave on a large scale. Others may be discouraged workers no longer actively looking for work, but are still claiming benefits. Whatever the source of the difference, it from time to time - not surprisingly - gives rise to a lively public debate about the interpretation of the Danish unemployment figures.

Long-term unemployment

As described above, one measure of long-term unemployment often used in Denmark is the number of unemployed with a degree of unemployment of 80 percent or more in a given year. Another measure of unemployment often used in international comparisons is information on the

¹²Dansk Arbejdsgiverforening: *Arbejdsmarkedspolitisk Agenda* nr. 10, 1998. One should note that this study thus applies a definition of unemployment not based on the standard ILO definition, which is why the figures are relatively higher than those from the Ministry of Labour and other sources.

number of persons that has been unemployed for more than one year. While in 1996 the number of persons unemployed for more than 80 percent of the year amounted to 85,000, the number of persons unemployed for more than 1 year was estimated at 52,000 persons in the labour force surveys. Both figures have shown a steady decline since 1994.

3.4.2 Underemployment

In the previous section, the question of the validity of the unemployment register as a measure of actual job seekers has already been touched upon in relation to the comparison between the unemployment figures from administrative registers and from labour force surveys. Here the question of validity was discussed in relation to whether the registered unemployed are actively looking for work.

On the other hand, there could be persons outside the unemployment register who are actual or potential job seekers but not currently registered as unemployed because they are:

- * in an programme of active labour market policy or on leave;
- * on early retirement or receiving a disability pension;
- * working short time but looking for more work;
- * not members of an unemployment fund or eligible for unemployment benefits or social security;

A number of persons in these groups may be labelled *underemployed* in the sense that they represent a potential increase in employment, while other are permanently positioned outside of the labour force. The exact dividing line between the underemployed and those outside the labour force is of course difficult to draw. On the other hand information on the changing sizes of the groups mentioned above is often necessary when interpreting the changes in the size of open unemployment based on register data or labour force surveys. This section aims at throwing some light on the issue of underemployment from a Danish perspective.

Active labour market programmes

Since a person taking part in a labour market programme or a leave schemes is not included in the unemployment register, changes in the number of these participants may influence open unemployment. Since 1994 Statistics Denmark has published the so-called AMFORA-statistics which contains information similar to the unemployment register, but for the persons the various labour market programmes. The AMFORA-statistic is also collected in an individual basis, enabling researchers to follow an individual's movements between unemployment and activation. Therefore these data are valuable for a number of evaluation purposes. Table 3.5 shows for 1996 the average number of persons in activation and also the average degree of participation (equivalent to the degree of unemployment discussed above).

As shown in table 3.5, almost 350,000 persons participated in one or more labour market programmes in 1997. The average number of participants (full time equivalents) was 123,500 persons which can be compared to an average open unemployment of 220,200 persons in the same year. The average degree of participation was 0.36 (or approx. 4 months). The highest degree of participation is found for subsidised employment and leave schemes, while the average time spent in educational activities (other than educational leave) was about 30 percent of a year.

Early retirement and disability pensions

The AMFORA statistic also contains information on the number of persons in unemployment pensions (for insured person aged 60-67) and the now abandoned early retirement schemes for insured persons aged 50-59 years. The average number of persons in those two schemes was 170,700 in 1997.

The total number of persons receiving disability pensions was 267,000 in 1997. In Friis (1994) it was estimated that approx. 100,000 receive their disability pension due to social indications.

Part-time work and discouraged workers

The flexibility of the Danish labour market is also expressed in the wide range in working hours found for women and to some extent also for men. Part-time work is normally regulated by the same collective agreements as other working arrangements and there are few indications of part-time work being involuntary.

The question of discouraged workers has already been touched upon in relation to the interpretation of the difference between the registered rate of unemployment and the rate found from the labour force surveys. In the latter, the unemployed indicating that they are unable to take a job within two weeks are asked for an explanation. Of the 60,000 persons receiving unemployment benefits or social security for unemployed in the 2. quarter of 1997 while not being able to take up work within two weeks, only 8,000 responded that they had given up looking for work. The rest referred to health problems, plans for education or family concerns when explaining why they were not willing to work for the time being.

Assessment

Summing up, one finds a number of groups which - while not being in the unemployment register - can be considered as underemployed in the sense that they are not actually in ordinary employment, but potentially could be. Based on the AMFORA-statistics, table 3.6 sums up some of the information discussed above for the second quarter of 1997.

A striking observation from table 3.6 is the large discrepancy between the registered unemployment rate of 7.5 percent and the "broad" range of unemployment of 17.5 percent found when adding persons on leave schemes, active programmes and early retirement. This sometimes leads to a heated debate of whether the current low rate of open unemployment in Denmark is mainly caused by "hiding" unemployed in leave schemes etc. Figure 3.12 sheds some light on this issues. The main impression is that both open unemployment and "broad unemployment rate" has fallen since 1994, though the fall during 1994 was main caused by persons moving out of open unemployment and into leave schemes etc. However since 1995 there has been a significant fall in both unemployment concepts which is also consistent with significant rise in both private and public employment during the same period.

One should finally note that table 3.6 does not include a number of persons receiving social benefits, early retirement pensions and sickness related benefits.

3.4.3 Summing up on underemployment

This section has dealt with different measures of unemployment and underemployment in Denmark. The main results can be summarised as:

- * There is some discrepancy between the estimates of unemployment found in register data and in labour market surveys.
- * A large number of persons are in active labour market programmes, leave schemes etc. Thus a broader concept of unemployment including these groups would more than double the figure of unemployment.
- * The fall in open unemployment in Denmark since 1994 reflects a *real improvement* in the employment conditions and not solely an increase in the number of persons in various labour market measures.

Finally one should emphasize that the difference between passive unemployment or active labour market programme is not only a question of "hiding" the unemployed outside the

unemployment register. Through activation, a large number of the unemployed will be able to leave the range of the unemployed altogether and enter into ordinary employment or education. Therefore underemployment is not just an extended form of unemployment but may be a precondition for employment later on.

3.5 The Danish labour market: Some future trends¹³

What are then the most important trends on the Danish labour market? This section gives a survey based on recent reports.

Labour force and employment by age and gender

The ideas about the perspectives for the Danish population and labour force have changed dramatically in recent years. Only a few years ago, both were forecasted to diminish from the late 1990s and into the first decades of the next century. In the more recent forecasts, however, total population is expected to *rise* from 5.2 mio. in 1996 to 5.5 mio. in 2025 (Arbejdsministeriet, 1996). The main reason for this change is an expected increase in fertility and growing immigration based on new evidence from the early 1990s.

Consequently, the labour force will grow until 2005 and then become almost constant.¹⁴ At the same time the age composition of the labour force will change. The number of older persons (above 50 years) will increase by 40 percent, while the share of middle aged will decline. During the forecasting period the difference in the activity rates of men and women is expected to narrow even further from the present gap of 7 percentage points to 3 percentage points.

The growth in the labour force will however also be influenced by the number of persons in early retirement programmes and leave schemes. Such programmes have been very popular in recent years. As a result, the workforce taken as a share of total population is expected to fall from 55 percent today to approx. 53 percent in 2025 thus increasing somewhat the economic burden on the active population. If the popularity of the early retirement schemes is unchanged compared to the present situation, this pressure may increase even further.

Sectoral developments in the medium term

The medium-term forecasts for sectoral employment follow the well-known historical patterns, cf. table 3.7. Private and public services will continue to be the driving forces in job creation due to the high income elasticity of services and the presumably lower productivity growth in services compared to other sectors. As shown below the long-term sectoral demand for labour will depend very much on the overall pattern of economic growth.

The future demand for qualifications

The question of future demand for different skills can be discussed at two levels. First one may point to the general consequences for employment of technological change and new kinds of management and work organisation. One such effects is the ongoing shift in the composition of labour demand generating risks of mismatch problems and - probably - a trend towards a diminishing demand for low-skilled labour. Furthermore the kind of qualifications demanded are moving away from job specific and narrow formal skills towards broader, informal and personal qualifications like flexibility, language knowledge, ability to cooperate etc. These changes are seen as general and fundamental tendencies which - though difficult to quantify - are relevant to all

¹³ Section 3.5 is based on an article by the author in TRENDS no. 29.

¹⁴ This forecast is of course based on specific assumptions about fertility rates, participation rates, migration etc. and will thus be sensitive for instance to the take-up of early retirement and leave schemes, cf. below.

sectors of the economy and also closely related to the basic nature of the new information technologies.

At a more specific level, the forecasters attempt to identify the differences in labour demand following from different growth patterns of the economy. These forecasts are focused more on formal educational qualifications. Table 3.8 presents an example of such a forecasting exercise based on a combination of macro-economic forecasts and a desegregate model describing the demand and supply of persons with different educational background.

Two points can be made from table 3.8. Firstly, although the base scenario assumes only a slight increase in unemployment, the relation between the unemployment rates of the different groups will change, reflecting the trend towards an increase in the general level of skills demanded. Therefore, the unskilled are expected to face a worsening unemployment situation over the next 15 years.

Secondly, the development in both general unemployment and the unemployment of the individual groups will in the long run depend on the structural changes of the economy. In the service scenario, the public service sector is expected to grow much more rapidly than in the base scenario. This lowers average unemployment to about 3 percent, but only halves the unemployment of the unskilled. On the other hand, severe shortages are found for groups with further education due to the increased need for doctors, teachers, nurses etc. Therefore not only the general level of unemployment, but also the mix and level of skills demanded depends heavily on the assumptions about the future composition of demand for goods and services.

3.6 The Danish IRS-system¹⁵

The main features of the Danish union structure was established already by the end of the 1800s. The union structure was organized around the traditional crafts and vocational education is still the dominant principle for union organization in Denmark today.

The fundamental unit in the Danish labour movement is the local trade unions. The workers are organized in more than 2,000 local trade unions and they constitute the basis of the central organizations of workers and employees. The local unions and their representatives at the firm - the shop stewards - are also the main actors in the collective wage bargaining at firm level.

As mentioned above, the organizational principle of Danish unions has been the trade or craft. Danish unskilled workers have their own unions and they are organized separately for men and women. During the 1960s, the growing number of salaried employees created independent unions and they are again organized along educational lines. These unions have established their own confederations partly outside the Danish Federation of Trade Unions (LO). The Danish union organization differs strongly from most other European countries, in which industry determines union affiliation. The specific Danish organizational form has caused conflicts within the labour movement between the skilled and unskilled workers - and later between workers and salaried employees.

During recent years unions have tried to accommodate their organizational structure to the technological and educational changes taking place in the Danish labour market. More workers are now employed in service jobs, are women and have got theoretical educations. Altogether a composition of the labour force which fits very badly to the traditional union structure dominated by male workers and crafts. Instead of a union structure organized around trades or skills, an organizational structure along industry lines is about to be established. So far this reorganization of the unions has intensified the struggle between the skilled and unskilled workers rather than solved the structural problems of the unions.

¹⁵ This section is partly based on Boje & Madsen (1994).

On the national level the Danish labour movement is organized around a number of federations or central organizations of trade unions (cf. table 3.9). The most important of these organizations is the Danish Federation of Trade Unions (LO) which represents the majority of skilled and unskilled workers, but also includes the lower groups of white-collar employees in a growing numbers.

Several federations have been set up for the salaried and professional workers and today they organize the majority of white-collar employees - mainly those employed in the public sector.

The Confederation of Employers Association (DA) is the main organization of the employers in Denmark and the counterpart to LO in collective negotiations conducted at the central level. This organization represents a smaller proportion of the employers in the Danish labour market than the proportion of workers represented by LO (cf. table 3.10). Thus of the employees in the private sector, only about half are working for an employer who is a member of an employers' association. On the other hand, DA is a more centralized organization and agreements settled between DA and LO are normally standard for agreements on wage and working conditions in the rest of the private labour market.

Development in union membership

Denmark has one of the highest level of trade union membership among the OECD-countries. Through the 1980s the proportion of Danish employees who are members of unions was been about 85 per cent. The level of union density culminated in the mid 1980s. Since then a minor fall has taken place in the level of union organization but not in the total amount of organized employees. In 1997 the share of organised wage earners was approx. 82 percent. The fall in the union density must be explained mainly by difficulties in organizing newly-entered white-collar employees - and it is particularly among younger employees in the private services that the reluctancy towards unionization has been growing.

The pattern of union organization has changed radically in the Danish labour market during the last two decades. Traditionally the level of unionization has been high among male workers in manufacturing and construction industries. Here the level of union membership has been stable and about 90 per cent during the last two decades. The growth in union membership has occurred among salaried employees. During the 1980s, the growth in unionization has been strong especially among female workers and employees in the public sector. Today we find nearly the same level of unionization for men and women and among blue-collar and white-collar workers.

Several explanations can be given of the high Danish level of unionization. On the one hand, the close connection in the Danish labour market between the trade unions and the unemployment security system seems to encourage workers to become unionized in periods with high unemployment. In Denmark, Sweden and Finland - all countries with a high unionization - unemployment insurance is voluntary and organized in connection to the unions. Contrary to e.g. Norway with a public organized and compulsory unemployment insurance system. Here the unions have severe problems in organizing the workers and the unionization level is lower than in the other Scandinavian countries.

Another important dimension in explaining the high level of union membership seems to be the Danish labour court system. According to this system labour disputes have to be solved through the collective organizations and based on the collective agreements settled for the organized part of the labour market. To be included into the collective agreement and to get labour disputes solved by the labour court the individual employee has to be member of a union.

The collective bargaining system

The organization of industrial relations and the collective bargaining system in Denmark were established at the turn of the century and within a decade of the foundation of the collective action

organizations. In 1899 a major labour conflict was solved by the collective action organizations entering a comprehensive agreement that included: 1) mutual recognition of the employers' and workers' right to set up organizations, 2) acceptance of the employers' right to hire and fire workers; and finally, 3) a system of rules for regulation of labour conflicts (strikes and lock-outs).

The "Main Agreement" from 1899 has been negotiated and revised several times - but not radically changed. Together with a set of rules for negotiation of industrial conflicts set up in 1910s, the "Main Agreement" has formed the basis of industrial relations in the Danish labour market. According to these rules for regulating of industrial relations the collective action organizations have to respect the peace obligation written into the "Main Agreement" and industrial conflicts are not tolerated in the contracting period of an agreement - typically for two years. Running out an agreement will always be accompanied by strike and lock-out notices and these will be implemented unless a new agreement has been made.

The Danish labour market is characterized as one of being well organized and with a strongly centralized organizational pattern. Negotiation of wages and work conditions takes place in principle without intervention from the government or Parliament. But in reality, very often the government or Parliament has set up the over-all conditions for the wage bargaining and for the level of wage growth through tripartite negotiations with the collective action organizations or through direct political intervention determining the content of the collective agreement.

In the first decades after entering into the "Main Agreement" in 1899 the state was not at all involved in the collective negotiation in the Danish labour market. Rules for state intervention in regulation of labour conflicts were introduced by law in 1934. In the same year a conciliation board was established as a public mediator in labour conflicts. Today it is possible for the official conciliator on his own initiative to intervene in the collective bargaining before outbreak of a labour conflict. It happens if the collective actors had not by themselves come to an agreement. In case of strong disagreement between the collective actors the official conciliator makes a draft settlement. Often this draft settlement has been used by the Parliament to prevent a labour conflict and to intervene in the collective bargaining process.

From the mid 1930s the government and the Parliament have intervened frequently in the collective bargaining, when the collective action organizations have not been able to come to an agreement. This intervention has been made by enacting the draft settlement through legislation - typically when it has been rejected by one of the collective action organizations. Since 1945 seven out of 23 collective agreements have been "decided" by the Parliament. Furthermore, in the same period several minor collective agreements covering a specific group of workers have been settled by political intervention. Especially the 1970s and the beginning of the 1980s were characterized by state intervention in the collective agreements in the Danish labour market - this was the case in 1975, 1977, 1979, 1981 and 1985. Also, the last major round of general negotiations in the Spring of 1998 was concluded by government intervention after a large-scale conflict lasting for more than a week.

Changes in the wage negotiation pattern

Until the mid 1960s the collective negotiation of wages and work conditions in Denmark took place on a mainly decentralized level. Among the workers the local trade unions were the negotiators and had the authority to conclude the agreement. The role of the central organizations was only coordination of the collective negotiations and consultative functions.

During the 1960s this negotiation pattern changed. A closer steering of the collective negotiations was demanded for many reasons. Firstly, centralization was a precondition for the politicians accomplishing their goals of a coordinated incomes policy. Secondly, without centralized wage bargaining and tight steering of the wage growth it would have been impossible for the central organization to implement the strongly emphasized solidary wage policy. Thirdly,

and finally, it is much easier to handle centralized wage bargaining and to get rid of the free-rider problems with unions not agree upon the general income policy. In the still more diversified union organization it became difficult for the top leaders of LO to control the wage formation.

In the 1960s the period for centralized negotiations started out with two bargaining rounds decided through political intervention. In particularly the legislation concerning the wage agreement in 1963 included a strong element of income policy. In this period the need for an efficient income policy was recognized by the collective action organization, and their active participation was required for a successful income regulation in the labour market.

In the 1980s the decentralized negotiation pattern reappeared. The need for central and political steering of the wage formation was no longer necessary because of the high unemployment and strongly falling inflation. The risk of handing over the control of the wage formation to the collective action organization and the market forces was limited, given the reduced bargaining position of the unions. On the other hand, decentralization of the collective bargaining was also supported by the unions. During the previous decades, the wage formation has been controlled very closely by the politicians. More decentralized negotiations were considered as an instrument to get rid of this control and to reestablish the authority of the collective action organizations in determining the wage formation.

The increasing decentralization of the collective bargaining also emerges in the procedures for individual wage negotiations of workers. In the collective agreement for 1991 the wage system for unskilled workers was changed. Previously their wages have been negotiated by the unions and fixed for the whole agreement period. Instead the collective agreement now fixed a minimum wage level and the major part of the wages are negotiated on the firm level in a performance-linked system. Furthermore the 1991-agreement introduces different forms of flexible working time and extends the decentralized wage negotiations by including parts of the public sector.

3.7 Labour market education and training

In Denmark there is a long tradition for public labour market education and training - a situation which must be understood in relation to the predominance of small and medium size firms and the high level of job-mobility already discussed above. In such an environment the individual firms will have fewer incentives to and lack resources for extensive training of the employees apart from training in very job-specific qualifications. From this "market failure" follows the need for a public system for labour market training and education in order to upgrade both the vocational and personal skills of the workforce. In contrast to some other countries, the Danish system is therefore targeted towards the work force in general (though mainly blue-collar workers) and not just at the unemployed. Actually unemployed constitute only about a quarter of those taking part in public labour market education and training.

Consistent with the Danish tradition for close involvement of the social partners in labour market policy formation, also labour market education and training is supervised by a national council with representatives from the social partner. This structure is also found at the local level where each centre for labour market training has a board with representatives from local trade unions, employers organizations and public authorities.

The Danish system was reformed in 1997.¹⁶ The structure of the courses offered was changed somewhat and the financing of the local centres became almost entirely based on the actual number of trainees taking courses.

¹⁶ See *Arbejdsmarkedspolitisk Årbog 1997*, pp. 48-58.

The total number of persons taking part in labour market training courses in 1994 was almost 200,000, whereof about half were unskilled or semi-skilled workers. About two thirds of the participants were men. The average duration of a course was approx. 2 weeks.¹⁷

If one takes the broader concept of public adult training and education which apart from the labour market training involves other forms of vocational education, a total of almost 800,000 persons took part in such training in 1996.¹⁸

3.8 The main characteristics of the Danish employment system

Summing up the information presented in this chapter, the main characteristics of the Danish employment system can be summarized in the following points:

At the *economic* level, the system is characterized by:

- * a dominance of small and medium sized firms ;
- * a high level of job-mobility and a low tenure of the average employee;

At the *organizational* level, the Danish industrial relations system has:

- * a high rate of organization especially at the employees side;
- * a dominant role of collective agreements in deciding wages and work conditions;
- * a positive support from the state in setting up mediating institutions to guarantee the smooth functioning of the IRS-system (for instance in settling industrial disputes).

Finally, at the *state level*, there is little direct legal intervention in functioning of the labour market, for instance in the form of regulations of employment protection (dismissals) and working time. Instead institutions are established to support the employment system in the form of:

- * a rather generous and mainly state financed unemployment benefit system (organized around private unemployment insurance funds) creating an income guarantee of up to 90 percent of previous income (for the low income groups);
- * a public system of labour market education and training aimed at upgrading the skill level of the work force in general (and especially the blue-collar workers).

To this can be added a system of labour exchange and activation programmes, also based on a high degree of involvement from the social partners (cf. chapter 5 below).

An important final point to note is the way in which the various elements of the Danish model match one another. The weak protection against dismissals is mirrored by the generous unemployment benefit system. The dominance of small and medium sized firms is reflected in the well-developed public system for labour market training and adult education. The high level of organization has its counterpart in the close involvement of the social partners in all aspects and level of labour market regulation and policy. The combined effect of these elements has been an employment system which creates a high level of flexibility (measured by job-mobility and average tenure) with a high degree of social and economic protection of the individual wage-earner.

This combination of flexibility and protection of the individual is maybe the most outstanding feature of the Danish employment system.

¹⁷ Statistisk Årbog 1997, table 114.

¹⁸ Se DA: Arbejdsmarkedspolitisk rapport 1998, table. 10.22.

Table 3.1: Employment by sector, 1950-1994

Sector	1950	1980	1994
Primary	25.7	7.7	5.0
Secondary	34.5	29.1	27.5
Private services	32.0	34.9	36.1
Public services	7.9	28.3	31.4
Total	100.1	100.0	100.0

Source: Denmark Statistik: 50-årsoversigten, 1995.

Table 3.2: Occupational activity rates among men and women, selected age groups, 1960-95, percentage.

	1960	1970	1979	1990	1995
Men:					
15-24 years	75	70	73	70	74
25-44 years	98	96	96	91	90
45-64 years	95	91	84	82	79
65-74 years	52	33	23	23	21
15-74 years	88	82	80	78	77
Women:					
15-24 years	63	56	65	69	67
25-44 years	37	56	83	88	84
45-64 years	34	43	53	67	66
65-74 years	10	7	8	7	6
15-74 years	38	49	61	69	67

Source: Statistics Denmark: Living Conditions in Denmark, 1997, Table 7.3 and 7.4

Table 3.3: Employed men and women, by number of normal working hours per week, 1995, percentage.

	Up to 30 hours	31-36 hours	37-38 hours	39 hours or more	Unstated	Total
Men:						
Self-employed	4	1	6	73	16	100
Salaried employees, upper level	1	1	41	57	0	100
Salaried employees, intermediate level	1	1	65	32	1	100
Salaried employees, lower level	8	2	74	16	0	100
Skilled manual workers	2	1	87	10	0	100
Unskilled manual workers	1	3	78	16	2	100
Total	2	1	63	31	2	100
Women:						
Self-employed	31	6	6	57	0	100
Assistant spouses	57	5	5	17	16	100
Salaried employees, upper level	9	7	48	36	0	100
Salaried employees, intermediate level	19	4	65	11	1	100
Salaried employees, lower level	26	15	53	6	0	100
Manual workers (skilled and unskilled)	25	12	48	14	1	100
Total	23	11	51	14	1	100

Source: Statistics Denmark: Living Conditions in Denmark, 1997, Table 7.14 and 7.15

Table 3.4 A: Employed men and women by normal weekly working hours, 2. quarter of 1998

	Less than 15 hours	15-36- hours	37 hours	38-48 hours	49 hours and more	Unstated	Total	Average working hours
1,000 persons								Hours
Men	94	100	817	242	193	8	1455	38.2
Women	122	390	568	111	31	9	1231	32.1
Total	216	491	1384	353	224	17	2686	35.4
Percent								*
Men	6	7	56	17	13	1	100	*
Women	10	32	46	9	3	1	101	*
Total	8	18	52	13	8	1	100	*

Source: Statistiske Efterretninger, Arbejdsmarked 1998:29, Table 3 and own calculations

Table 3.4B: Labour market flows in and out of unemployment from 1. to 2. quarter of 1997

	To unemployment	From unemployment
Employment	58,000	32,000
Active labour market programmes	12,000	6,000
Leave	4,000	5,000
Social assistance and disability	11,000	9,000
Early retirement programmes	2,000	*
Total	87,000	52,000

Source: Ministry of Finance, 1997, figure 4.1

Table 3.5: The total and average number of participants and the average degree of participation in active labour market programmes and leave schemes in Denmark, 1997 (rounded figures).

	1997		
	Total number of participants	Average degree of participation	Average number of participants
Ordinary job training	40,700	0.41	16,800
Special job training	44,400	0.31	14,000
Pool-jobs (public service jobs)	11,800	0.56	6,600
Self-employment	15,800	0.71	11,200
Voluntary work	1,000	0.28	300
SUBSIDISED EMPLOYMENT	107,900	0.45	49,000
Education, ordinary	57,400	0.31	17,700
Education, special	21,800	0.28	6,000
EDUCATION, TOTAL (excl. educational leave)	78,500	0.30	23,800
OTHER ACTIVATION	19,400	0.21	4,000
Sabbatical leave	1,600	0.36	600
Child minding leave	56,800	0.39	22,200
Educational leave	83,800	0.29	23,900
LEAVE SCHEMES	140,200	0.33	46,700
ACTIVE LABOUR MARKET PROGRAMMES AND LEAVE SCHEMES	346,000	0.36	123,500

Source: Statistics Denmark: *Statistiske Efterretninger: Arbejdsmarked, 1998:14.*

Note: Since the same person may participate in more than one programme during the same year the subtotals of the number of participants may be less than the sum of the components.

Table 3.6: The number of participants in various labour market programmes, leave schemes and early retirement, full time equivalents, 1997.

	Number (rounded figures)	Share of labour force Percent
Subsidised employment	49,000	1.7
Leave schemes	46,700	1.6
Education and training for unemployed	23,800	0.8
Other activation	4,000	0.1
Early retirement (members of unemployment insurance funds)	170,700	5.8
Registered unemployment	220,200	7.5
Total	514,500	17.5

Source: Statistics Denmark: *Statistiske Efterretning: Arbejdsmarked, 1998:14*

Table 3.7: Forecast of sectoral distribution of employment 1995-2005

	1995		2005		Change 1995 to 2005 Percent
	1,000 persons	Share (percentage)	1,000 persons	Share (percentage)	
Agriculture	116	5	109	4	-6
Manufacturing	512	20	532	19	4
Construction	169	7	197	7	17
Private services	939	37	1083	39	15
Public sector	765	30	853	31	12
Misc.	11	0	11	0	0
Total employment	2512	100	2785	100	11

Source: Authors calculations based on Ministry of Finance (1996), table 9.9

Table 3.8: Unemployment rates by educational level for two different scenarios, 1996 and 2010

Educational level	1996	2010	
		Base scenario	Service scenario
- unemployment rate (percentage) -			
Unskilled	12.9	18.0	6.7
Skilled	7.9	10.6	2.1
Further education (short)	4.8	5.9	-1.1
Further education (medium)	3.1	2.6	-2.6
Further education (long)	4.3	3.9	-1.4
All	8.2	10.8	2.9

Source: N. Groes et al (1996), table 6.1 and 6.2

Table 3.9: Major unions in Denmark with membership 1997

Union	Membership (1997)
HK (Office and Shops)	357,000
SID (General Workers' Union)	307,000
FOA (Employees of Regional Authorities)	205,000
Metal Workers' Union	143,000
LO Total	1,496,000
School teachers	60,000
Nurses	51,000
Financial sector	44,000
FTF Total	341,000
Academics Unions	141,000
Total number of Union Members	2,171,000

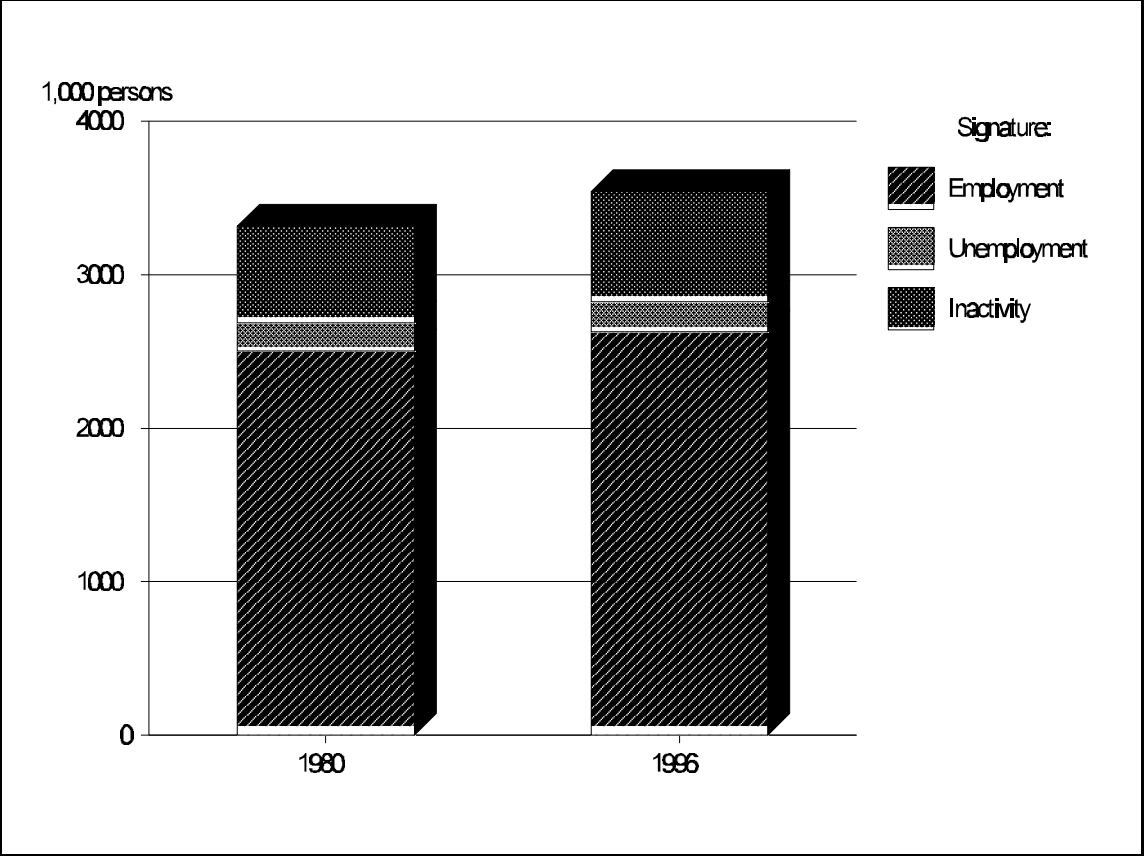
Note: The totals include other unions than the ones listed in the table.
Source: Dansk Arbejdsgiverforening (1998), Table 10.3

Table 3.10: Major employers' associations in Denmark with estimated number of employees in member firms. 1996.

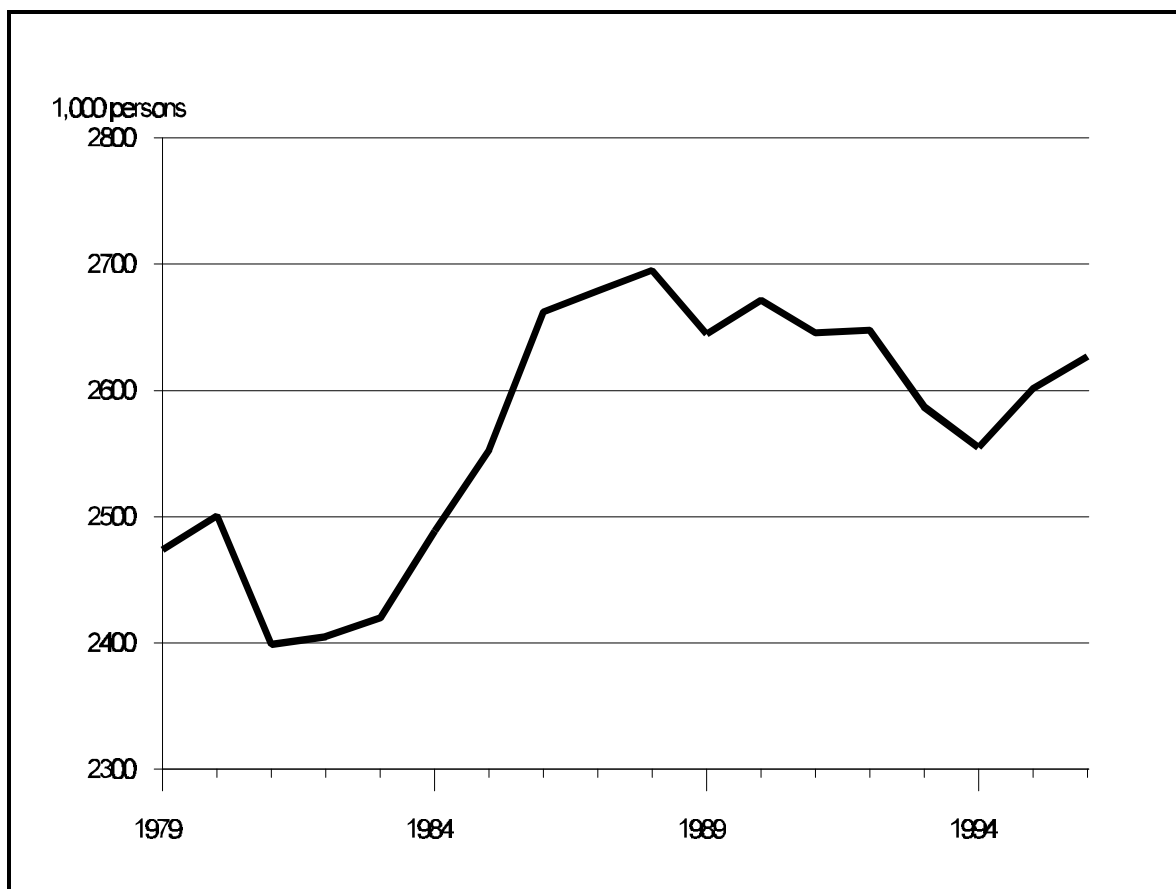
Sector	Number of employees in member firms (1996). Rounded figures.
Danish Industry	215,000
Building and Construction	50,000
Transport	35,000
Service/cleaning	35,000
Office and shops	175,000
DA Total	510,000
Finance	60,000
Agriculture	51,000
Total private sector	620,000
State	200,000
Regional authorities	800,000
Total public sector	800,000

Source: Scheuer (1998)

Figure 3.1: Composition of working-age population, 1980 and 1996.

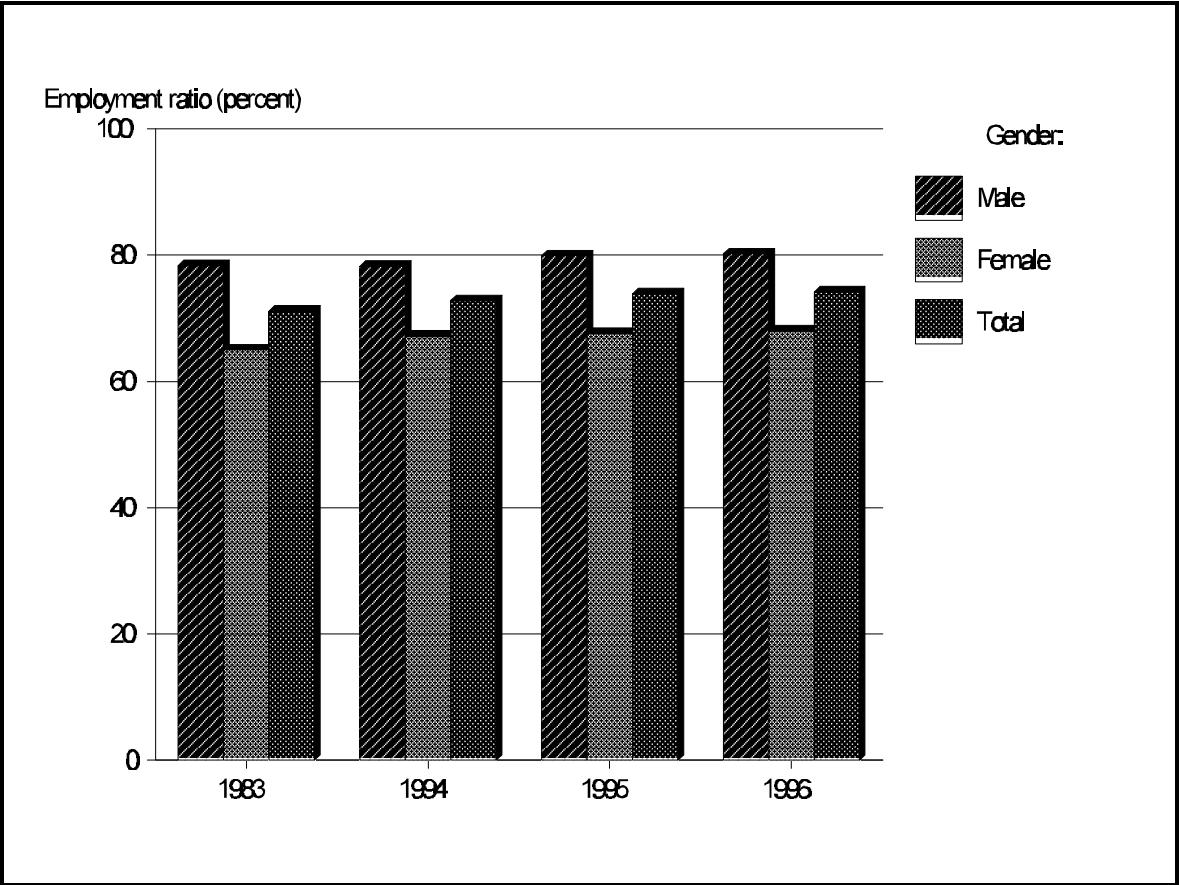


Source: CEPR-data, table 1.

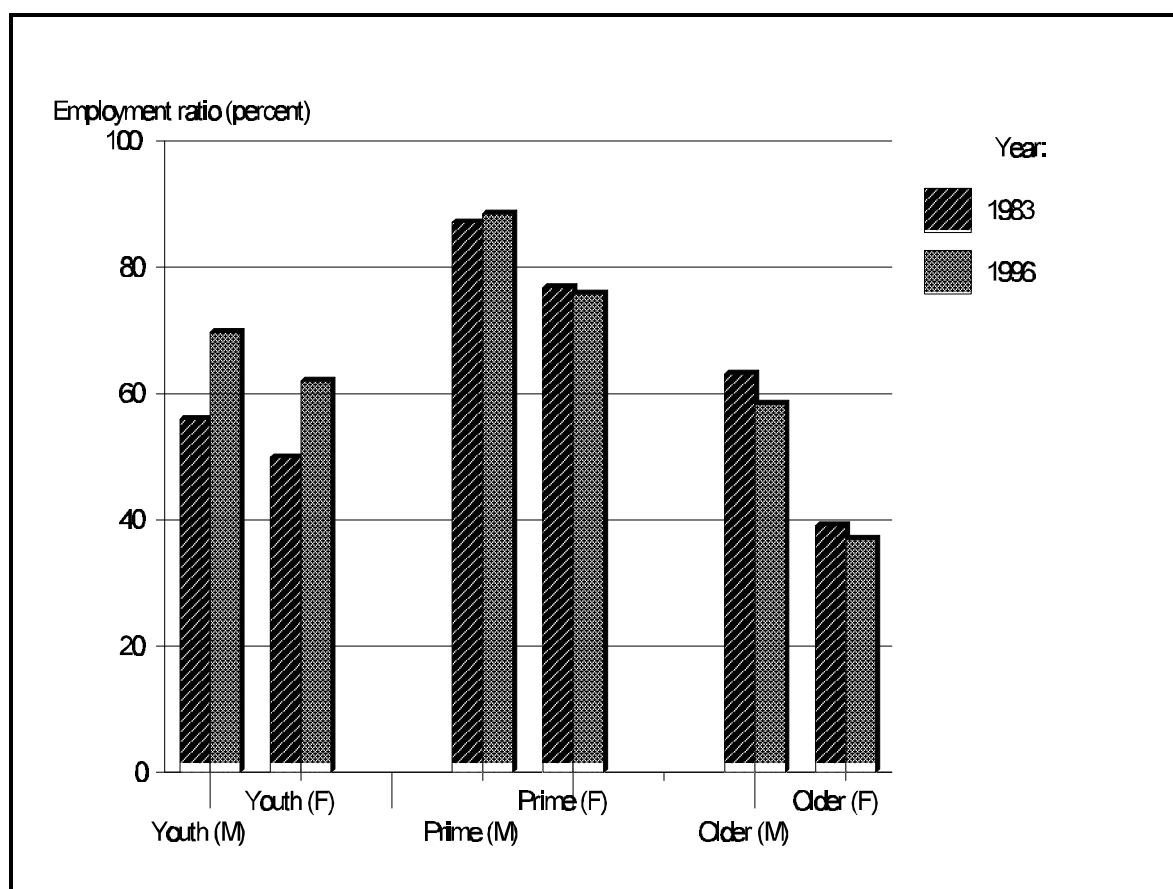
Figure 3.2: Total employment, 1980-96, 1,000 persons

Source: CEPR-project data bank.

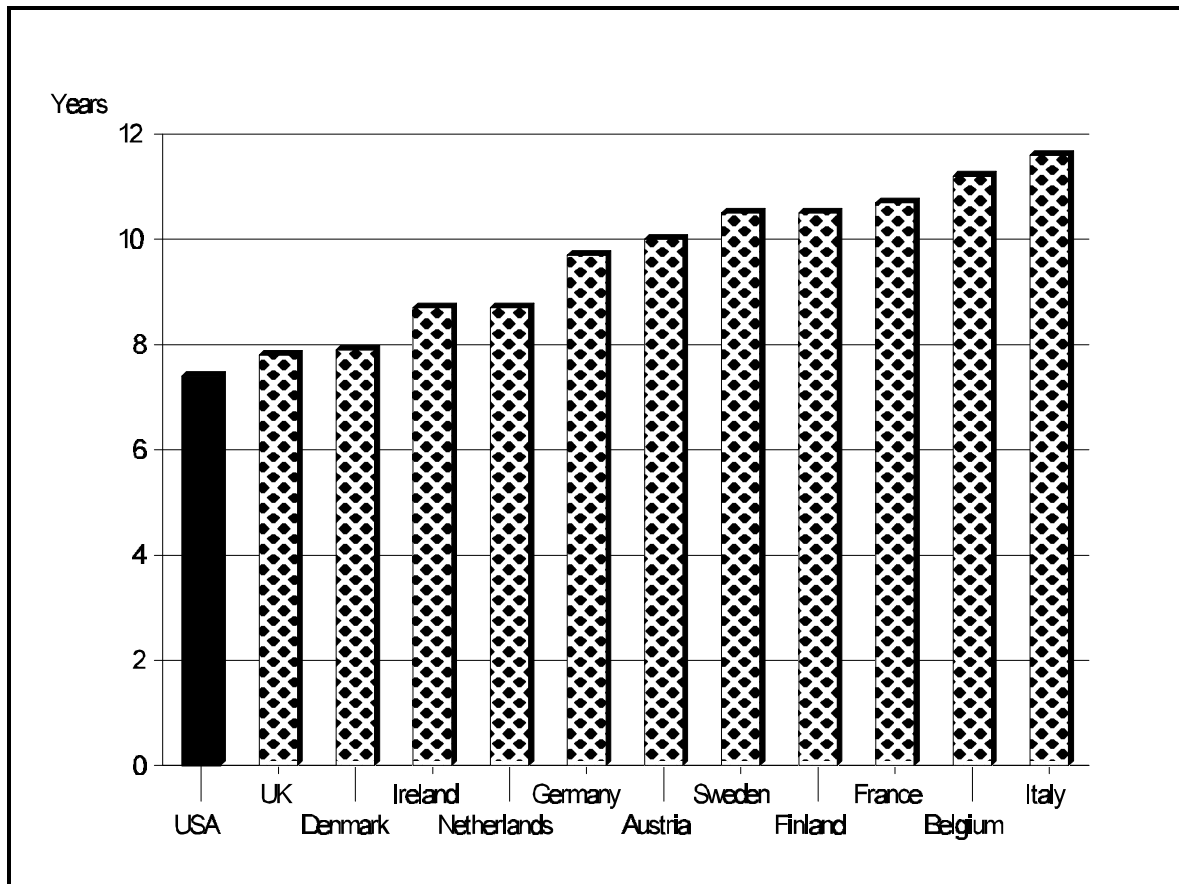
Figure 3.3: Employment/population ratio by gender, 1983-96, percent.



Source: CEPR-project data bank, table 9.

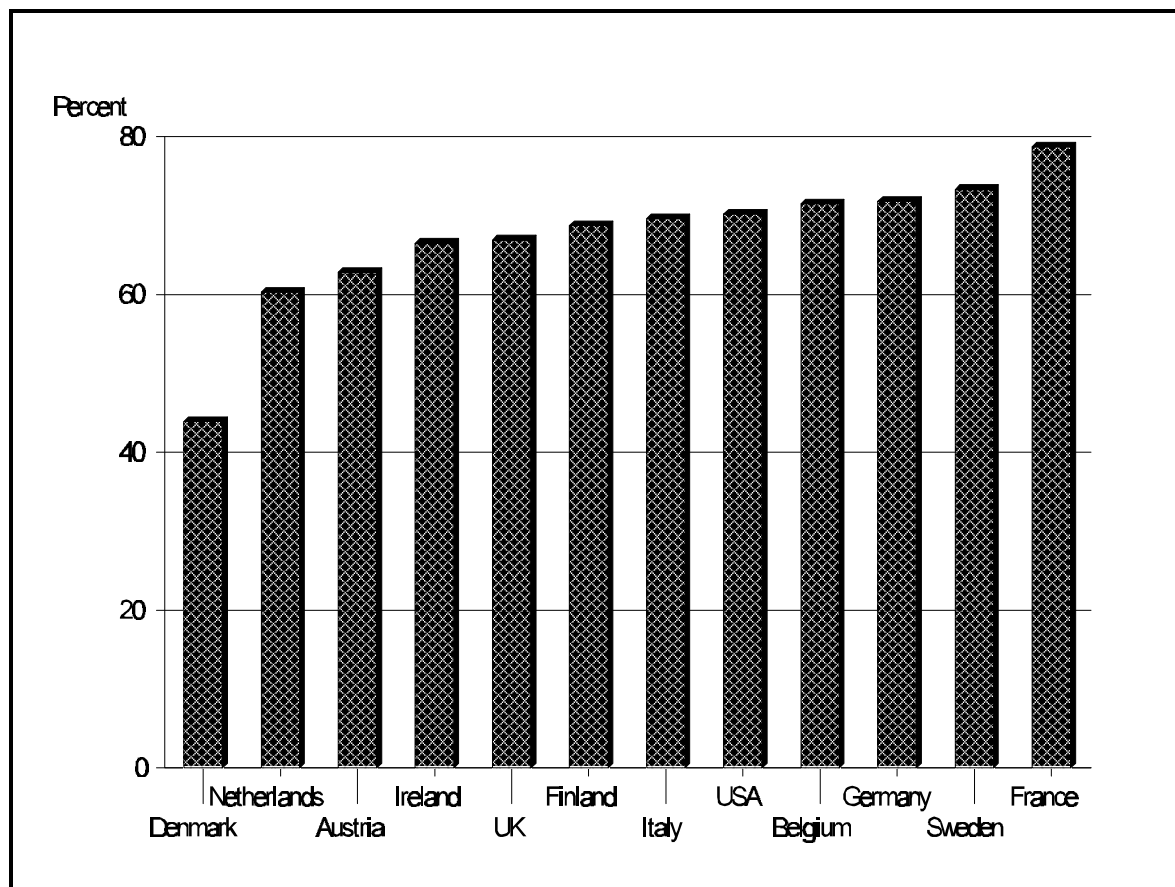
Figure 3.4: Employment ratios by age and gender, 1993 and 1996.

Source: CEPR-project data bank, table 9.

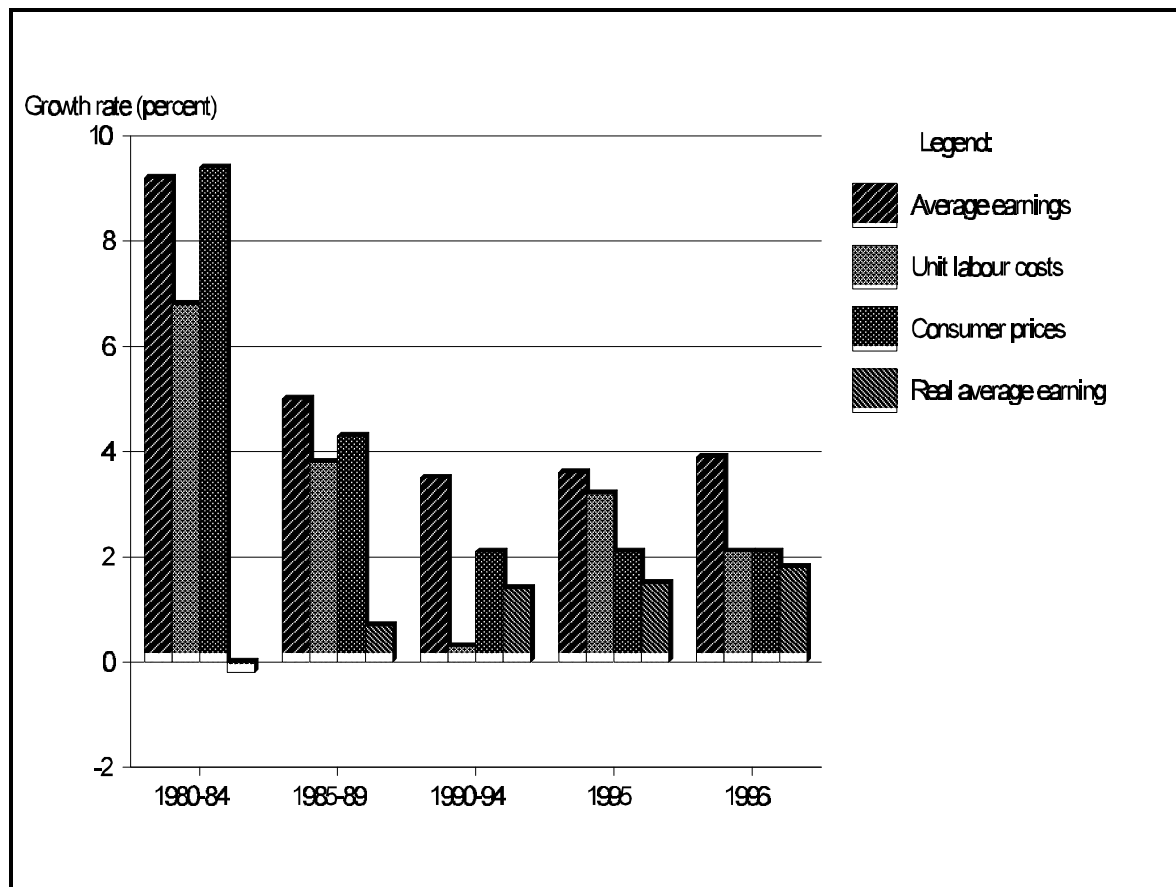
Figure 3.5: Average tenure of employees in years, 1995.

Source OECD (1997), table 5.5.

Figure 3.6: The share of worker not strongly agreeing that their job is secure, 1996.

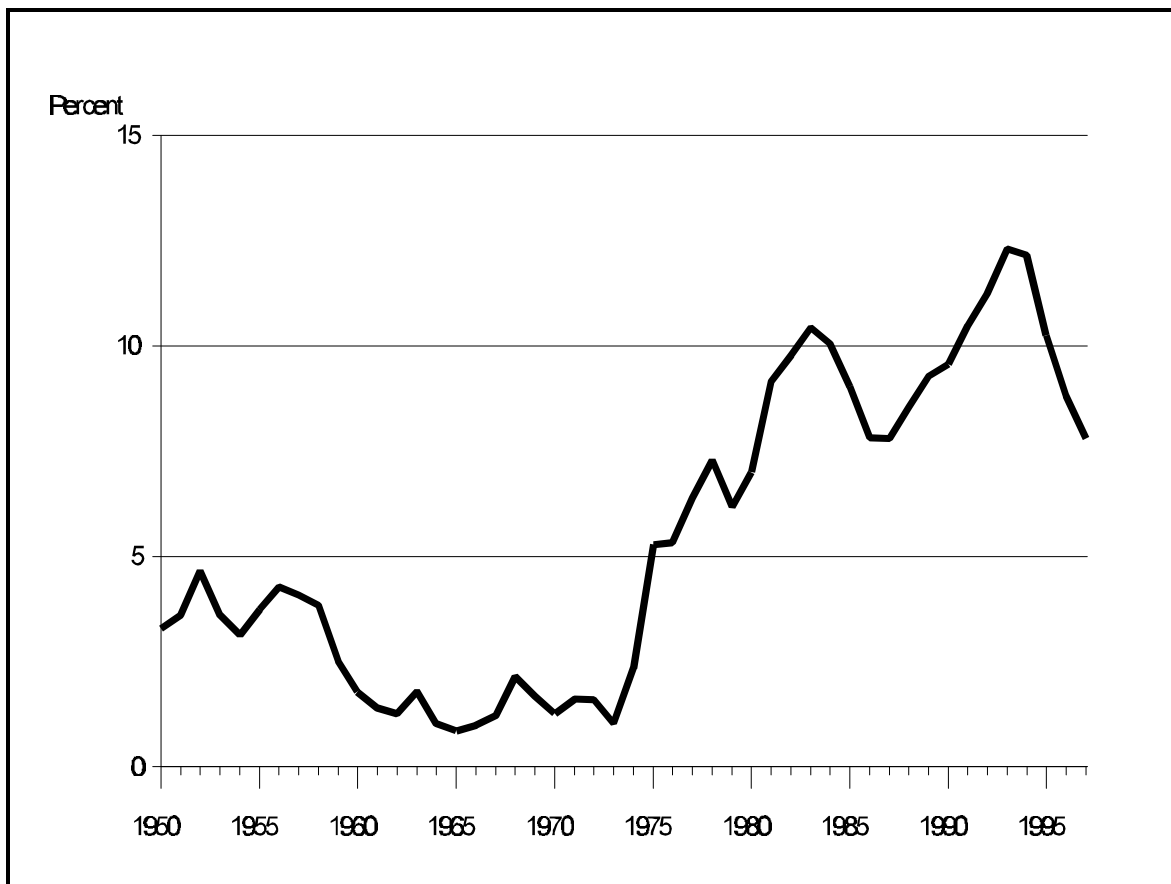


Source: OECD (1997), table 5.2.

Figure 3.7: Wages and inflation, 1980-1996.

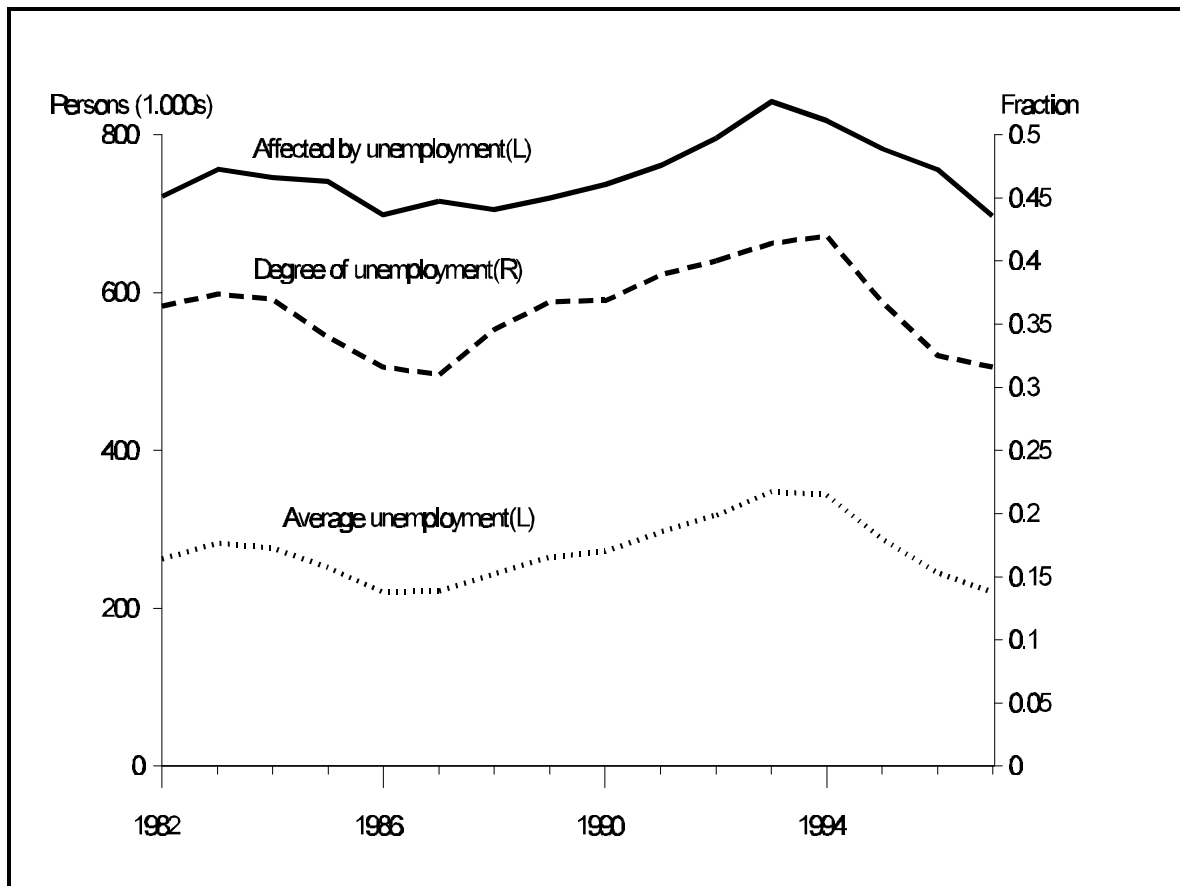
Source: CEPR-project data bank, table 4.

Figure 3.8: Registered unemployment as a percentage of labour force, 1950-1997.



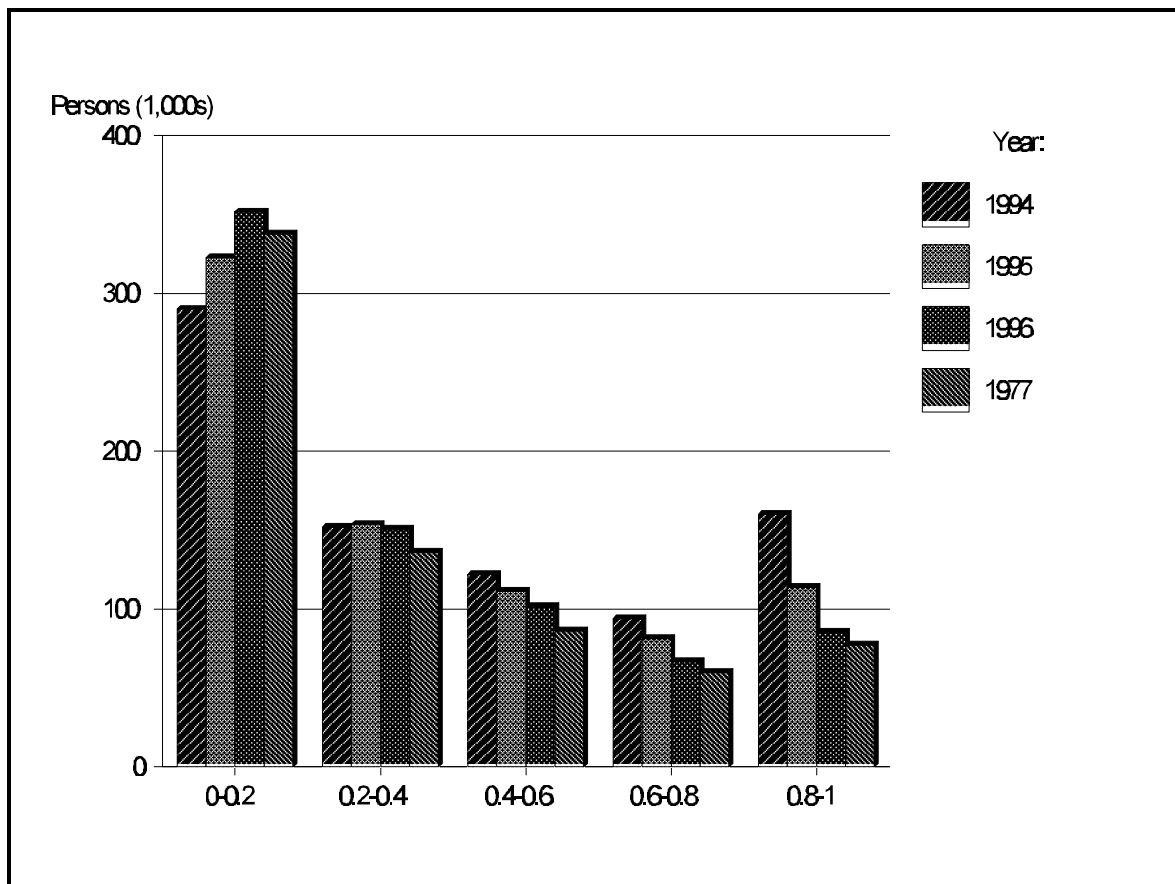
Source: ADAM's Data Bank and The Economic Council.

Figure 3.9: Number of persons affected by unemployment, average unemployment (both



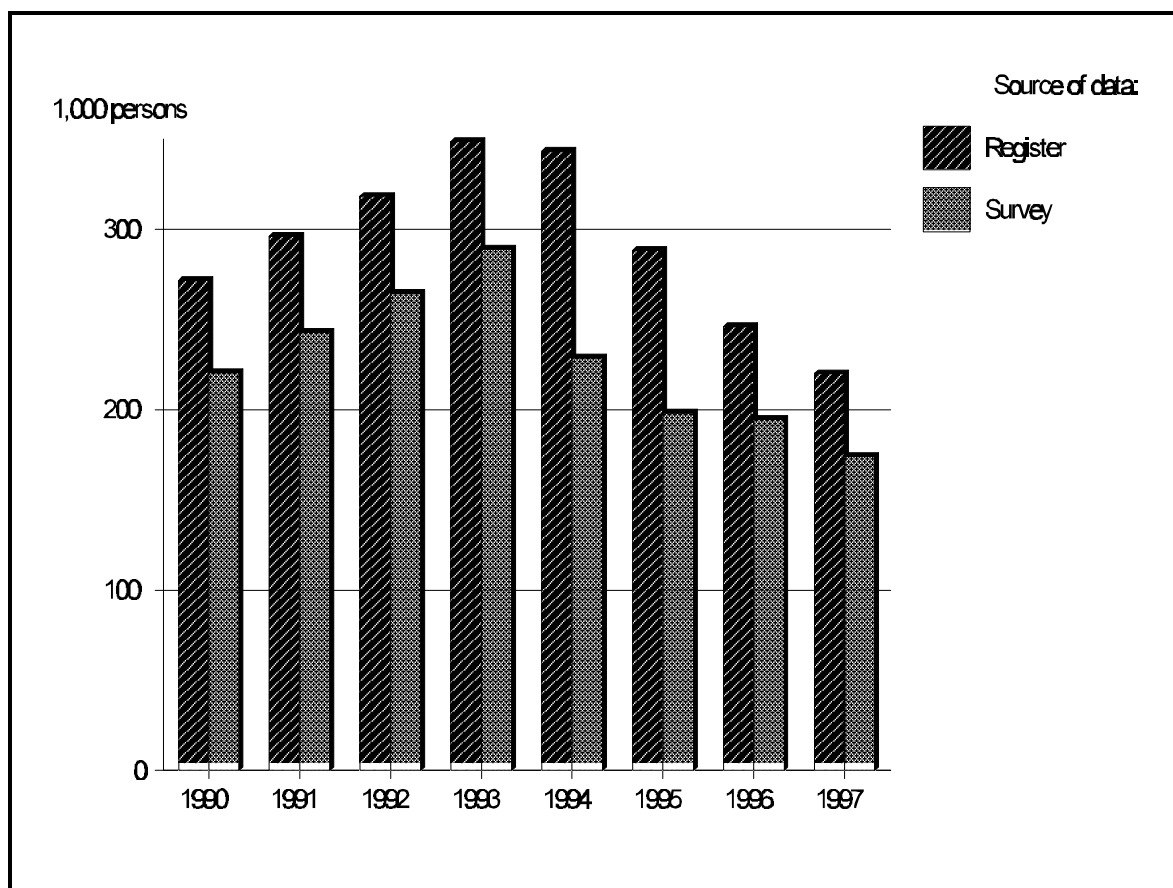
Source: Statistics Denmark.

left axis) and the degree of unemployment (right axis), 1982-97.

Figure 3.10: Number of persons with different degrees of unemployment, 1994-97.

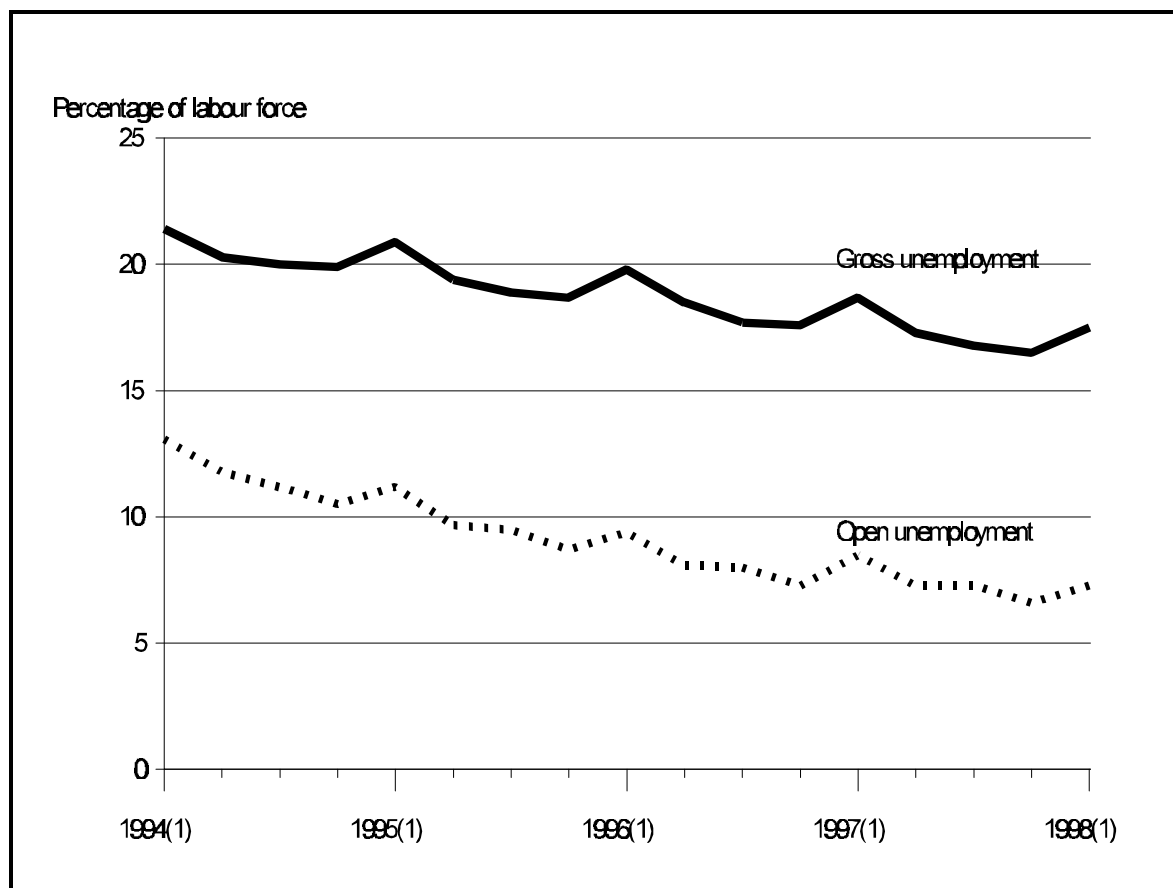
Source: Statistics Denmark.

Figure 3.11: Number of unemployed from register data and from labour force statistics, 1990-1997



Source: Statistics Denmark and Eurostat.

Figure 3.12: Open unemployment and gross unemployment in Denmark, 1994(1Q) to 1998(1Q).



Source: AMFORA, Statistics Denmark

4. The macro-economic environment

During the last decade, the Danish labour market has experienced rather dramatic cyclical changes in unemployment. From a low of 7.9 percent in 1986-87, open unemployment rose to a maximum of 12.4 percent and 12.2 percent in 1993 and 1994, respectively. Then in only three years open unemployment dropped to 10.4 percent in 1995, 8.9 percent in 1996 and 7.9 percent in 1997 - back to the 1986-level. The purpose of the present chapter is to discuss the macroeconomic background to this development before the detailed discussion of labour market policy found in chapter 6.

4.1 Changes in demand and production

Since 1980 Denmark has experienced two economic upswings in both of which domestic demand - and especially private consumption - played an important role. Figure 4.1 describes the growth of real GDP and real total domestic demand during these two cycles. The first boom was in 1983-86 and was put to an end by a drastic fiscal contraction when the balance of payments and wage inflation threatened to run out of control. After a period with very sluggish domestic demand, the second boom started in 1993-94 and has now lasted for four years with 1994 and 1997 as examples of years where real domestic demand grew by about 5 percent, in both years clearly outrunning the growth in real GDP. In 1998 the boom is expected to level out but still showing considerable growth rates compared to the early 1990s.

In figure 4.2, a closer look is taken at the growth in public and private consumption. Here one sees the characteristic manner in which private consumption rises dramatically in the second phase of the two upswings - in both cases stimulated by rising housing prices that constitute the basis for capital gains and loans for consumption purposes. Also one notes the way in which rising public consumption stimulates demand in the first year(s) of the boom (1982 and 1993).

Figure 4.3 in a similar manner depicts the development in the remaining components of domestic demand: exports and real gross capital formation. Focusing on the development in the early 1990s, it is striking how exports managed to keep up demand from 1987-91 and again stimulated demand from 1994 and onwards. In contrast, investment was sluggish during the years from 1987-92 but then together with private consumption has played an important role for the second phase of the boom of the 1990s.

Thus in conclusion, the macroeconomic development in the 1990s shows the characteristics of a traditional business cycle with an upswing that starts with a fiscal stimulus and then gains momentum as private consumption and investment catches up. The special feature of the Danish upswings - both in the 1980s and the 1990s - is however the crucial role played by rising housing prices and a system of easy access to loans based on the resulting capital gains.

4.2 The external balance

Another characteristic feature of the present upswing has been the development on the balance of payments. One can get an impression of the underlying forces from figure 4.4, which shows the growth rates of real exports and imports from 1980-98.

Focusing on the growth in imports, one sees the close relation between the years of high growth rates in private consumption and private investment on the one hand and imports on the others. This reflects the openness of the Danish economy and the high content of imported goods in both the income elastic parts of private consumption and in private investment. As a result the surplus on the balance of payments as percentage of GDP is expected to fall from 1.7 percent in 1996 to 0.6 percent in 1997 and -0.6 percent in 1998.¹⁹

¹⁹ Estimates from the Ministry of Economic Affairs, October 1998.

4.3 Wages and prices

As already discussed in chapter 3, one of the striking features of the recent development in the Danish economy has been the lack of signs of inflationary pressure. Figure 4.5 plots the rate of unemployment and the growth rates of compensation per employee in the business sector since 1980.

As indicated by figure 4.5, the rapid fall in open unemployment since 1994 has not had the effect on wage inflation which could be expected from the historical experience in the boom in the mid 1980s. In the present upswing growth rates of wages have risen somewhat but are still at the level of 4 percent, while the previous upswing had wage rates rising to above 7 percent (in 1987). In the Danish debate several explanations are presented for this apparent change in the wage-unemployment relationship:

- * changing behaviour of firms, employees and social partners paying increasingly attention to the wage inflation of important trading partner (especially Germany); in this relation one should also note that while Danish wage increases in the 1990s are low compared with the 1980s, they are still rather high compared to other countries where a decrease in wage inflation has also taken place from the 1980s to the 1990s;
- * a more balanced upswing in the 1990s compared to the 1980s where the building sector already in the early phase showed signs of bottle necks;
- * problems of interpretation in relation to the unemployment rate where one must take into account the number of persons in various labour market programmes; thus gross unemployment in the 1990s compared to the 1980s may actually be higher than indicated by the data in figure 4.5.

However as a final possibility one could also expect the change in the wage-unemployment relationship to be influenced by the *changes in labour market policy which took place in 1993-94*. Therefore these changes are in the focus of the following chapter.

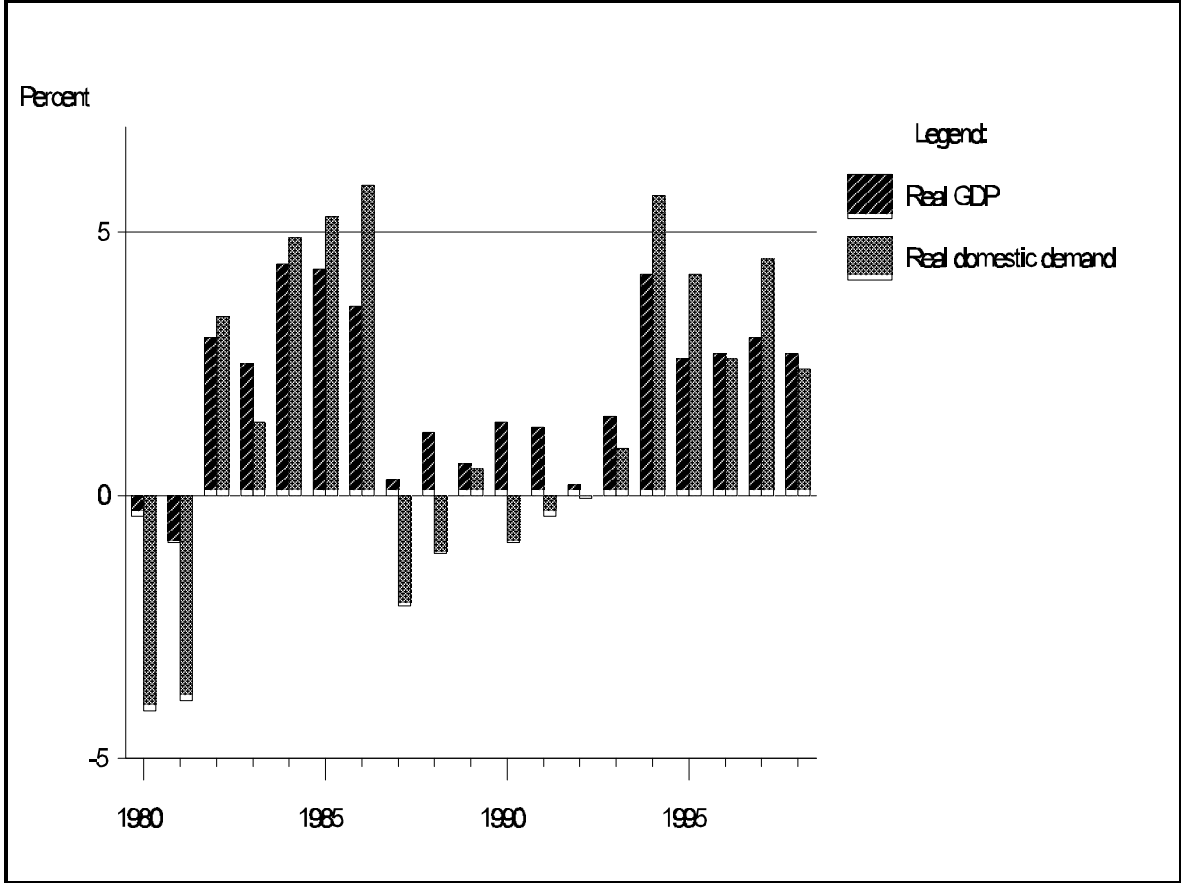
4.4 Summary

The main conclusion of the present chapter is that the background for dramatic fall in the Danish unemployment is a favourable macro-economic development characterized by:

- * An expansionary fiscal policy in 1993-94 and a rise in public employment also in the following years.
- * Rising private consumption (stimulated by housing prices).
- * Rising private investment.

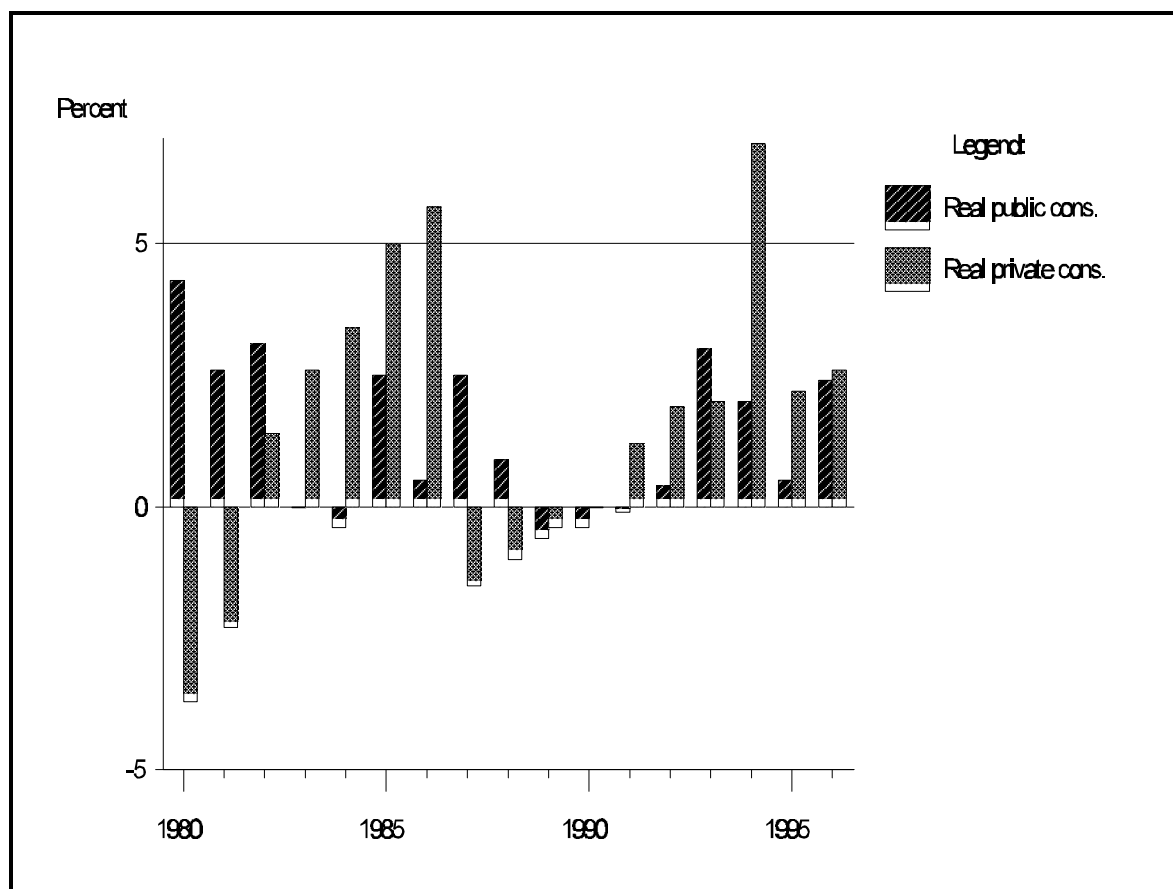
The consequence - as expected - has been a diminishing surplus on the balance of payments. More surprisingly, the rate of wage inflation has not yet increased very much, while open unemployment has fallen significantly. In many respects this is the most interesting feature of the present Danish upswing. One possible explanation for the fall in wage inflation is explored in the following chapter.

Figure 4.1: Growth in real GDP and real domestic demand, 1980-98. Percent.



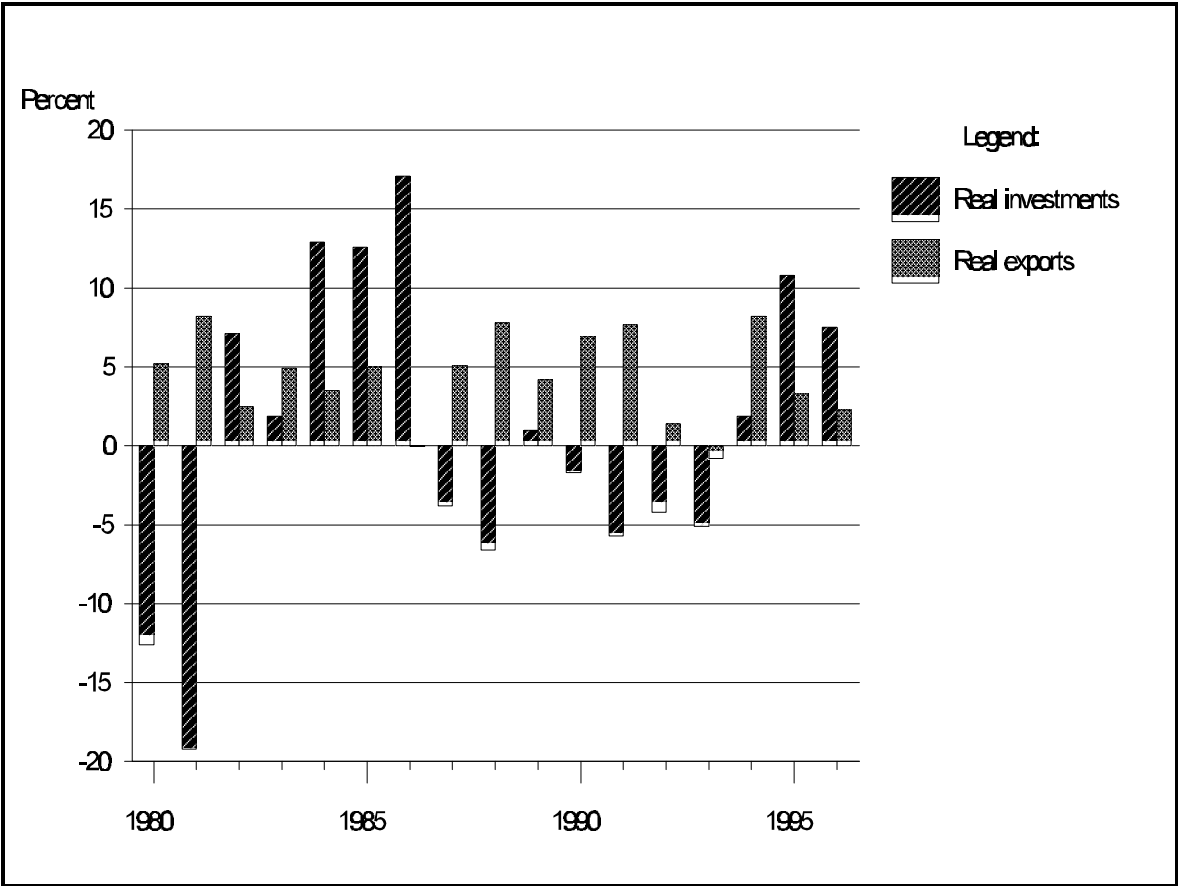
Source: OECD and Ministry of Labour (1998), table 1.

Figure 4.2: Growth in public and private consumption, 1980-98. Percent.



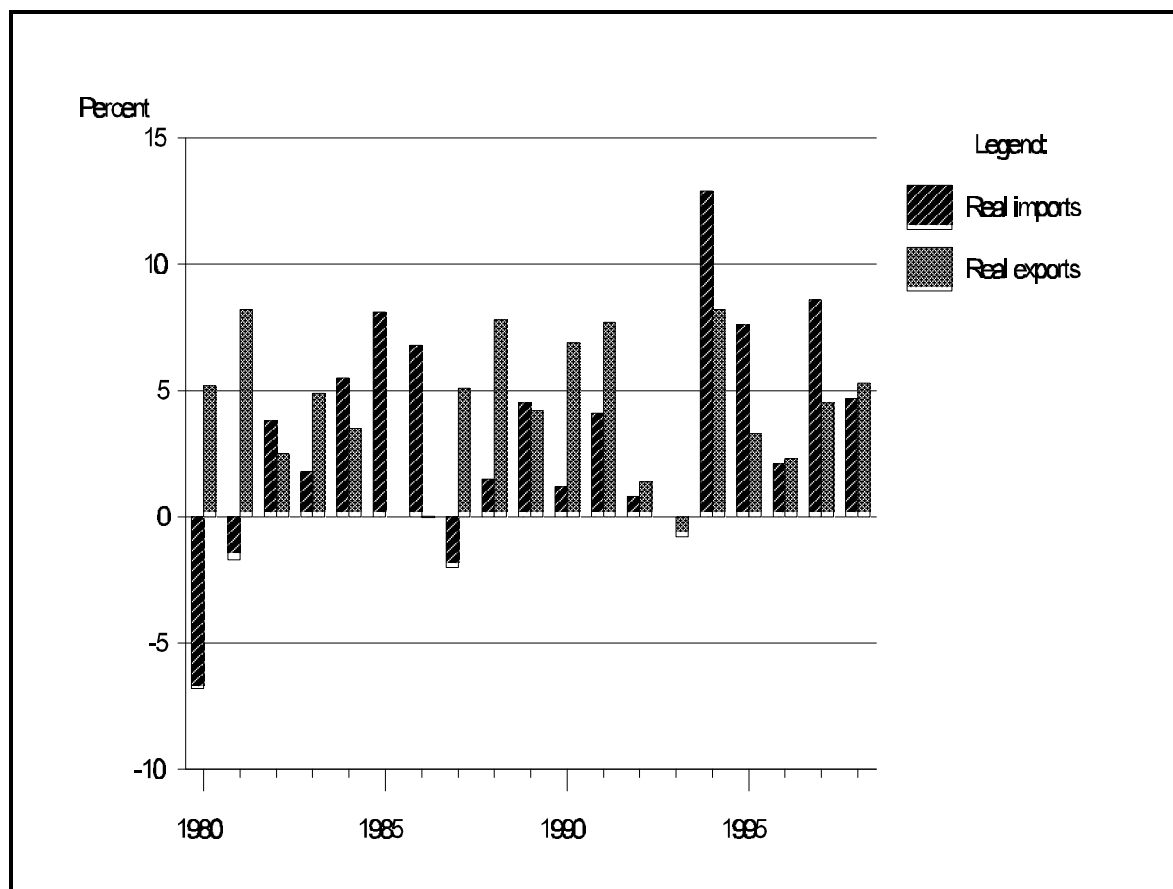
Source: OECD and Ministry of Labour 1998, Table 2.

Figure 4.3: Growth in real gross fixed capital investment and real exports of good and services, 1980-1996.



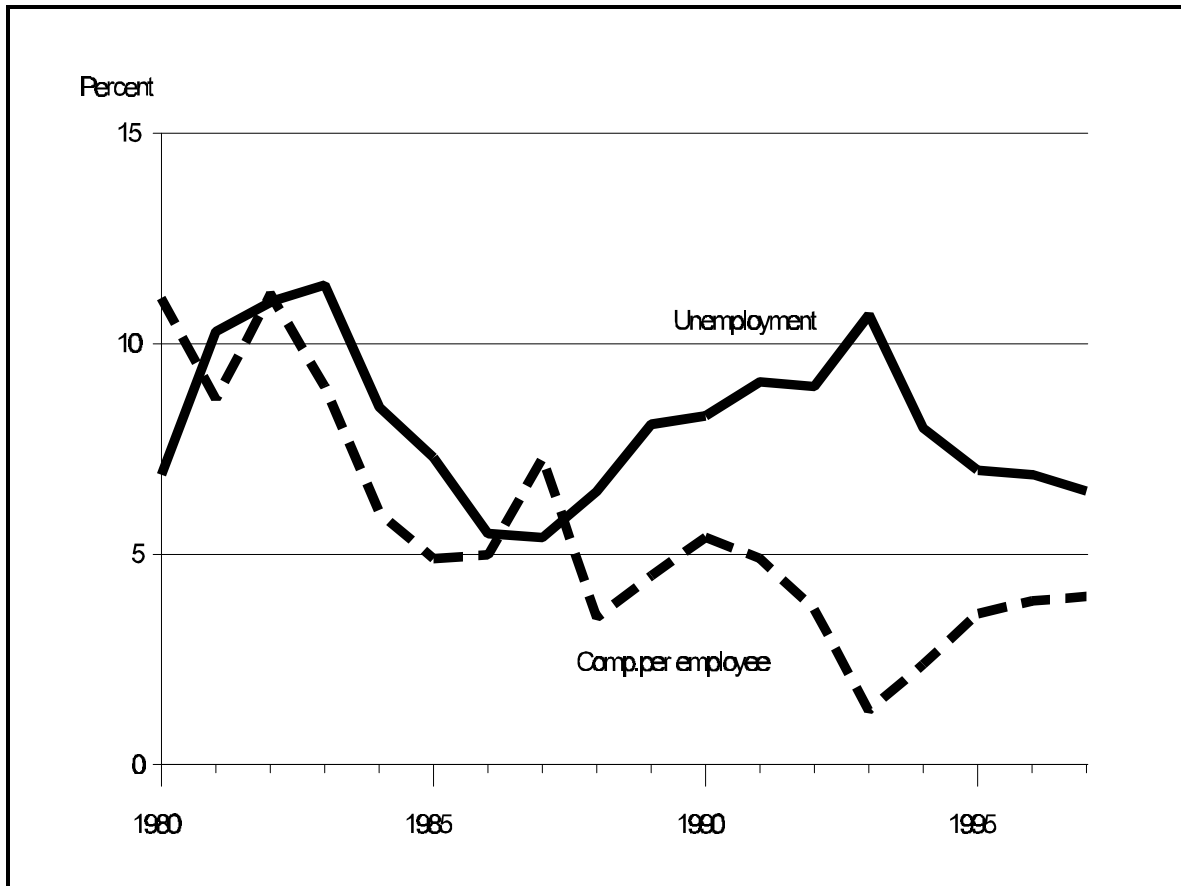
Percent. Source: OECD.

Figure 4.4: Growth in real imports and real exports, 1980-98.



Percent. Source: OECD and Ministry of Labour (1998), table 2.

Figure 4.5: Unemployment rate and growth rate of compensation per employee, 1980-97.
Percent.



Source: CEPR-project data bank (tables 10 and 22) and (for 1997) estimates based on Ministry of Labour (1998).

5. The new labour market policy of the 1990s

5.1 An overview of Danish labour market policy

The present section aims at briefly introducing labour market policy as a part of the Danish employment system.

The official aim of Danish labour market policy is twofold:

- * to create a well-functioning labour market with a continuous increase in the qualifications of the workforce and without bottlenecks and other forms of imbalances between supply and demand for labour ;
- * to combat long-term unemployment.

Though these goals are stated separately, an important aspect of policy-design has in recent years been to integrate them - thus combining the activation of long-term unemployed with the upgrading of the skills of the workforce in general.

On the background of the high and rising unemployment in the 1970s and 1980s, Denmark has a long history of various programmes to fight unemployment. Since the early 1970s, a large range of unemployment policies has been applied in Denmark: public job creation, job training in public and private enterprises, targeted educational programmes etc.

Actually the Danish expenditure on labour market policy measured as a share of GDP is a European record of more than 6 percent. Most of the expenditure is however on passive measures like unemployment benefits and early retirement pensions (cf. below).

During the years from 1979 til 1993, the main pillar of the active policy towards long-term unemployment was a programme of job-offers, training and support to unemployed starting as self-employed. This programme showed rather poor results enabling only a minority of the participants to become employed at the open labour market. This - together with a new sharp increase in unemployment from 1990 and onwards - increased the political pressure for finding new measures to break the vicious circle of long-term unemployment. The result was a general labour-market reform being put into force on January 1, 1994 and is further discussed below.

Table 5.1 gives an overview of Danish labour market policy by showing the expenditure divided by different policy areas.

As seen from table 5.1, total real expenditure for labour market policy has been falling since 1994, mainly due to diminish costs for unemployment benefits (partly offset by increasing costs for unemployment pensions). The share of active measures in total expenditure has risen slightly from 17 percent in 1994 til between 18 and 19 percent in the following years.

Finally, two points are important to keep in mind when looking at Danish labour market policies in the 1980s and 1990s.

Firstly, the institutional background for the formulation of labour market policy is a long tradition for corporatist decision making with a strong involvement of trade unions and employer's organisations on the labour market. Both at the national and the regional level policy formation is therefore strongly influenced by labour market councils dominated by representatives from social partners.

Secondly, labour market policy has been developed on the background of a general climate of Danish economic policy involving a change from Keynesian demand management to a more tight fiscal policy and increased emphasis on the "structural" problems of the functioning of the Danish economy.

5.2 Recent developments in labour market policy in Denmark

The main problem for Danish labour market policy over the last 20 years has been the gradual increase in structural employment from which follows a risk of inflationary pressures, even at high levels of open unemployment.

The latest response to these problems was a general labour-market reform that was put into force on January 1, 1994. The reform consisted of two parts: a *steering reform* and an *activation reform*. The main elements of the former was:

- * A decentralisation of policy implementation to regional labour-market council composed of representatives from employer's federations, trade unions and local authorities, which were empowered to design activation programmes in line with local needs.
- * The introduction of a system of planning, guidelines and targets in order to make regional policies comply with national goals for labour market policy. Thus the mix of instruments and the detailed specification of targets was to be decided at the regional level, while the overall policy goals were set by the national labour market council and the Ministry of Labour.

The main characteristics of the *activation reform* were:

- * The creation of a two-period system for the insured unemployed with strong emphasis on activation during the second period
- * A change in the assistance to the long-term unemployed from a rule-based system to a system based on an assessment of the needs of the individual unemployed and of the local labour market. The reform also introduced the so-called "individual action plan" as a mandatory instrument to focus the attention of the unemployed and the labour market authorities on the actions necessary to make the individual unemployed qualified for ordinary employment.
- * The removal of the connection between job-training and the unemployment benefit system which meant that participating in job-training no longer would extend the right to obtain unemployment benefits, if a person became unemployed after the training period.
- * The introduction of a number of paid leave schemes to encourage both employed and unemployed people to take leave.

The common feature of the schemes for paid leave is that they enable wage-earners and self-employed to take leave for a limited time period (up to one year) and then return to work. Leave can be granted for three purposes: child-minding, education or leave for non-specified purposes (sabbatical). The target groups and the income support during the leave period differ between the three schemes. Thus two of the Danish paid leave arrangements also include unemployed, who during the leave are not submitted to the usual requirement to be disposable for the labour exchange and undergo activation. Furthermore, the maximum duration of the benefit period will be extended for an unemployed taking child minding leave, but - from 1996 - not educational leave. The amount paid to persons on leave varies from 100 percent of unemployment benefits (educational leave) to 60 percent (child minding and sabbatical leave).

One strong argument supporting the introduction of paid leave was the idea of *job rotation*, where employed persons going on leave would be substituted by unemployed who would thus get a change to return to ordinary employment. However, apart from sabbatical leave, hiring a substitute is not mandatory for the employer. In many cases paid leave for education is part of a more formal *job rotation scheme*, where the firm in cooperation with the labour market authorities sets up a plan for training of the currently employed and combines this with special training programmes for unemployed to be hired as substitutes.

Since 1994 a number of important adjustments have been made in the original reform. Thus the period in which a person can receive passive unemployment benefits has been reduced from 4 to 2 years (and will in 1999 probably be reduced to 1 year). For young unemployed less

than 25 years of age without vocational education, a special reform in 1996 made it mandatory to take an education of no less than 18 months after 6 months of unemployment. Also the demands on the unemployed as far as job seeking is concerned have been tightened.

In the remaining sections of this chapter, the different parts of the reform are presented and discussed. Section 5.3 looks at the steering reform, while section 5.4 presents the regulatory environment for activation. Section 5.5 then presents the paid leave arrangements and their results, while section 5.6 gives an overview of the effect evaluations of the other parts of the reform from 1994. Finally, section 5.7 sums up the experiences with Danish labour market policy in the 1990s.

5.3 Regionalisation of policy design and implementation

Even before 1994, Danish labour market policy was somewhat decentralized. The labour market reform, however, took a further step towards both decentralizing the control over labour market policy to 14 regions and also increased the influence of the labour market organizations over regional labour market policy. Thus each regional labour market council was allocated a budget within which it could design a regional labour market policy selecting from the range of instruments available in the national legislation. Policy design also to some degree involved specifying target groups within the broad groups pointed out at the national level.

Respect for national policy priorities was to be obtained by a planning process involving central monitoring of yearly regional plans and by setting up both quantitative and qualitative targets to be met by the regional labour market boards.

Thus the reform involved *both* a decentralisation of the control over policy formation and implementation *and* an increased involvement of the social partners. The main arguments behind decentralisation and involvement of the social partners were:

- * Making labour market policy more flexible and adapted to local needs.
- * Increasing the quality of policy by adding the knowledge of the social partners and making them more engaged in the implementation of policy.

In many ways, this part of the reform has fulfilled the expectations. The evaluations report that:

- * The regional plans have a high and increasing quality adapted to local needs and at the same time are developed in close communication with the central authorities.
- * The regional actors show increased involvement in the policy process
- * Cooperation between within the regional labour market councils and between the regional councils and other actors at the regional level seems to be well functioning.

On the other hand, one can also point to a number of potential problems with decentralisation and involvement of the social partners:

- * There could be conflicts between national and regional policy priorities (for instance in selecting specific target groups).
- * Regional actors may become frustrated in situations where there is a conflict between expectations and available resources.
- * Decisions involving many actors may become vague or fragmented and lose a coherent strategic perspective.

Many of the elements in the original steering model can be conceived as tools to minimize these sorts of risks. Table 5.2 summarizes the pros and cons of decentralization and a high level of organizational influence and also points to the measures used to minimize the risks mentioned above.

Results from evaluations of the organizational aspects of the labour market reform, indicate that the benefits seem to outweigh the risks (Winter et al, 1995, 1996; Larsen et al, 1996). There are clear indications of increased involvement from the labour market organization. Also the actual

regional plans show a high level of quality and the outcome of regional labour market policy seems satisfactory.

However there are also a number of problems:

- * Conflicts of competence between the different actors involved in the planning and implementation of policy.
- * Conflicts between the overall national strategy and the different regional strategies.
- * Debates over the relevant choice of indicators for policy success at the regional level.

Current adjustments of this part of the reform are aimed at overcoming these obstacles to a well-functioning formation of a regional labour market policy.

5.4 The regulatory environment for activation

As mentioned above, one important aspect of recent labour markets reforms has been to introduce a two-period system for the insured unemployed. The design of the system has undergone some changes over last three years. The current system - to be implemented from 1997-99 - is as follows: During the first period of two years (the benefit period) the unemployed will receive unemployment benefits and in some cases (vulnerable groups like unskilled persons, immigrants, young persons etc.) be offered various forms of activation like education or job-training. As a rule however, the unemployed during this first period is encouraged to look for ordinary work.

If not successful in getting employment, the unemployed will enter the next period (the activation period), which lasts for three years. During this period the unemployed has *both a right and an obligation* to activation (education and/or job training) on a fulltime basis. The aim is still to qualify for a job on the ordinary labour market. If the unemployed does not succeed in getting unsubsidised work by the end of the activation period, he or she will lose the right to unemployment benefits and will have to apply for means tested social security. One year of ordinary employment is then required to reenter the benefit system for the insured unemployed and start a new five-year period.

In many cases, the income of unemployed undergoing some kind of activation is defined in relation to the level of unemployment benefits (having a maximum of approx. 136.000 DKK per year). This is the case for most of the persons taking part in *educational programmes* including those on educational leave.

For persons in *job training* the wages and working conditions are in principle determined by collective agreements. A number of important exceptions are however found to this rule:

- * For both insured and uninsured persons undertaking *ordinary job training in the public sector* during the first two years of unemployment the hourly wage has a maximum of 86 DKK/hour.
- * For persons in *individual job training* (mainly uninsured unemployed trained in the public sector) an amount is paid which equals the social security plus a minor "activation premium".
- * In case of insured unemployed in job training during the *activation period*, weekly income is equal to unemployment benefits. Weekly working hours are therefore reduced in such a manner as to make the resulting hourly wage equal to the wage rates set by collective agreements.

If an unemployed person has a income from work while receiving unemployment benefits or social security, benefits are reduced correspondingly. For insured unemployed, this is done on a proportional basis in the sense, that for instance one week of work reduces monthly benefits by 25 percent. If the alternative to unemployment is temporary low-income jobs, the incentive to work is therefore rather limited, when one also takes account of the high marginal taxation of

supplementary income. Social security, but not unemployment benefits, will also be reduced in case of other forms of supplementary income. All benefits are taxed.

Since health care and other welfare services (e.g. basic pensions) are universal and financed through general taxes, there are no special benefits for unemployed. On the other hand recipients of unemployment benefits and similar income are not contributing to the labour market pension funds and therefore not increasing their future supplementary pensions.

As a general rule, persons receiving unemployment benefits or being activated must be job seekers and accept job offers from the Labour Office. This is also the case for persons on education or training. The only exception to this rule is unemployed taking child minding leave.

Table 5.3 sums up the general principles for income paid to unemployed persons, while in various activation programmes. The table illustrates the parallel system which has been created for insured and uninsured unemployed. The main difference between the two systems is however that social benefits are means-tested. This implies that an unemployed person married to a high-income wage earner can receive unemployment benefits, but not social security.

For younger persons (less than 25 years of age) special rules apply. Thus *young unemployed without a vocational education* are - after 6 months of unemployment within 9 months- obliged to follow 18 months of education receiving 50 percent of maximum benefits.

As indicated by table 5.3, a number of the instruments used to activate insured unemployed pays the participants an income related to the level of unemployment benefits, which therefore functions as a standard of value throughout the activation system:

- * The *educational programmes and the leave scheme for educational purposes* generally pay the participant the equivalent of unemployment benefits.
- * While in *job training during the activation period*, the income paid to the participant is equal to unemployment benefits.
- * Also the income paid to persons taking *child minding and sabbatical leave* is calculated as a fraction of unemployment benefits (60 percent).
- * Similarly, uninsured persons in individual job training in the public sector will receive an income equal to their social security benefit plus a premium.

In the case of the job training programmes for insured unemployed during the *benefit period*, the situation is more unclear reflecting the conflict between treating the participants according to the rules of collective agreements and as persons in a special labour market programme. Usually the employer is paid a subsidy of 46 DKK per hour and then - in the private sector - pays the participant according to collective agreement. In the public sector, the maximum hourly wage is 86 DKK.

Finally, in order to give the public employers a stronger incentive to create job-openings for long-term unemployed, a new possibility has been opened in 1996 to create so-called "*pool-jobs*" within almost all public service activities including environmental protection, cultural activities, education, social services etc. The individual pool-jobs are limited to three years, and 90 percent of the wage cost is refunded by the state. The weekly wage is set equal to unemployment benefits and working hours adjusted in order to make the hourly wage in line with collective agreements.

5.5 The paid leave arrangements (PLAs)

PLAs were introduced in Denmark in 1992 as pilot-schemes. The Danish labour market reform of 1994 made the PLAs an integral and important element of labour market policy. Table 5.4 gives an overview of the three main forms of PLAs now existing in Denmark.

To the information in the table can be added that the applicants for education leave and sabbatical leave must be more the 25 years of age and have been on the labour market for more than three years. These criteria do not apply to child-minding leave.

Right from the start, the PLAs proved to be very popular. The average number of persons on leave thus increased from 17,900 in the 1. quarter of 1994 to 80,200 in the 4. quarter. The total number of persons granted a leave in 1996 was 121,000, while the average number of whole-year persons on leave were 62,300. This can be compared to an open unemployment in 1996 of 245.600 persons.

5.5.1 Paid leave arrangements, work sharing and job rotation

The arguments for the positive employment effects of PLAs may take two forms.

Firstly, one may emphasize the element of *direct work-sharing* in paid leave arrangement and see them as means to distribute the burden of unemployment more evenly over the workforce. In its simple form, where the amount of work is seen as a fixed number of working hours, which can be distributed more or less evenly over a (homogeneous) workforce, the argument is not accepted by most labour market researchers.

Secondly, the employment effect may be related to the common tendency to hysteresis in unemployment, which is a dominant feature of unemployment in most European countries. On this background interest is directed at means to prevent unemployed from being locked up in long-term unemployment and on the various barriers hampering the long-term unemployed from getting re-employed. One important restriction seems to be *unemployment itself* in the sense that a longer period of unemployment acts as a signal to potential employers that something is wrong with this particular person - even if one cannot spot the particular reason during an job-interview or from studying the formal educational qualifications (so-called statistical discrimination). To improve the chances of becoming employed, one must therefore establish incentives for the employers to give the unemployed a temporary job offer in order to give him or her the opportunity to reassure the employer of the actual qualifications. Programmes directed solely at training or educating the unemployed will only have limited effects, because this important re-employment barrier is not overcome.

On this background emphasis is put on the potential effects of paid leave arrangements in relation to *job-rotation*. As mentioned above, job-rotation is actually mandatory in one Danish scheme, in the sense that the employer must employ an unemployed as a substitute during the leave of the employee. In other cases job-rotation is stimulated in various ways without being a formal requirement (eg. when PLAs are integrated in formal job-rotation projects set up in cooperation between firms, educational institutions and the Labour Office). The intention is that those employed as substitutes will drastically improve their chance of getting stable employment.

5.5.2 Employment effects of PLAs in the short and the long run

The short term economic effects of paid leave arrangements are in general undisputed:

- * The number of registered unemployed decreases by one person, every time an unemployed person takes leave. If an employed person takes leave, the decrease in registered unemployment is related to the share of vacancies being filled with substitutes.
- * Total employment falls when employed persons take leave, except for the case when all vacancies are filled by substitutes.
- * The sum of registered unemployed and persons on leave will increase unless and vacancies are filled by previously unemployed substitute.
- * Total public expenditure on unemployment benefits and compensation to persons on leave will fall every time an unemployed takes leave, if the compensation is less than the unemployment benefit. For employed persons taking leave, the effects on public budgets will depend on the relation between the replacement rate and the share of the compensation in

relation to unemployment benefits. *If the replacement rate is higher than the rate of compensation, there will be net public savings.*²⁰

There is much less agreement on the longer term economic consequences of paid leave arrangements, but a number of effects are possible:

- * *The supply of labour may be influenced.* The direct effect of leave schemes is to reduce the supply of labour. However, the increase in the demand for labour stemming from the hiring of substitutes may also increase the supply of labour and thus reduce the short run effect on unemployment described above. One could also imagine that the paid leave arrangements themselves will act as an incentive for some persons to enter the labour force in order to benefit from the schemes, though rules for becoming eligible to the PLAN are set up in order to diminish this kind of "moral hazard". To the degree that the PLAN's reduce marginalization, the effective supply of labour will also be increased in the longer run. Therefore, it is very difficult to make quantitative estimates of the effects of the PLAs on the supply of labour.
- * *The fall in unemployment caused by the PLAs may in the longer term lead to wage pressure.* If the PLAN implies bottlenecks on segments of the labour market that act as wage leaders, the wage effects will be larger than in the cases where paid leave is mostly taken by groups with high unemployment. Increasing wages will have negative effects on international competitiveness and increase unemployment. Also in this case, the actual size of these effects is very hard to estimate.
- * *The PLAs will probably have positive impacts on the qualifications of the workforce.* Especially from the educational leave one can expect an increase on the qualifications of the persons on leave, while at the same time the substitutes undertake on-the-job training. Therefore the PLAs can increase the growth potential of the economy and diminish the risk of bottle-necks caused by lack of qualified labour.

Summing up, one therefore finds conflicting arguments concerning the longer terms effects of the PLAs. On the one hand there are risks of bottle-necks and wage-pressure, but on the other hand an opportunity to upgrade the qualifications of the workforce, both employed and unemployed. Among economists, the major disagreement has dealt with how to weigh these effects against each other.

Apart from the macroeconomic effects of PLAs one can point to the potential beneficial macro-social effects related to for instance improved family relations and increased social and cultural mobility. Furthermore, the PLAs can be seen as a strategy for fighting unemployment, which is both visible and easy to understand for the large parts of the population. The major non-economic risk of PLAs is probably related to the effects on the position of women on the labour market, which may be weakened from the high proportion of women taking child-minding leave.

Table 5.5 sums up some potential economic and non-economic risks and benefits from a macro-perspective.

5.5.3 Evaluations of the leave schemes

The labour market reform of 1994 is now under evaluation. Results have been published from two general evaluations of the implementation process (Haahr & Winter, 1996; Larsen et al,

²⁰ This conclusion is based on a simple economic model of the short term effects of paid leave arrangements (Kongshøj Madsen, 1995).

1996) and from an effect evaluation of the paid leave schemes and from other of the sub-programmes (cf. section 5.6 below).

Among the main results from evaluating the paid leave arrangements are (Andersen, 1996; Pedersen, 1996):

- * The leave schemes are very popular with 121,000 persons taking leave in 1996. Hereof, 72,700 persons went on educational leave, 46,900 persons were on child minding-leave, while only 1,500 persons went on sabbatical. The number of persons taking leave has decreased somewhat since the maximum of 141,000 persons on 1994. This fall is probably due to changed economic conditions and stricter rules for the leave takers and a more restrictive attitude from the employers due to the economic upswing, which makes it more difficult to send employees on leave.
- * Half of the persons taking leave are unemployed and a majority are women. About 60 percent of the employed taking leave are from the public sector. The average duration of a leave is approx. 200 days.
- * Educational leave is mostly taken to improve formal qualifications in relation to the current employment situation. Of those employed taking educational leave about 50 percent did so together with colleagues. For 12 percent the leave was in relation to a formal project of job rotation. In 1995 the total number of persons taking part in such job rotation projects was 29,000. Both employers and employees have very positive evaluations of educational leave.
- * Child minding leave is mainly taken by women (90 percent). The attitude of firms is more critical in this case.
- * The paid leave schemes implies both costs and savings for the public sector. The net effects of the schemes is estimated at between 0.4 and 1.5 billion DKK in 1995 depending on the assumptions concerning the share of vacancies being filled with substitutes. This amount to between 5,000 and 20,000 DKK per person on leave (on a full-year basis).

Table 5.6 presents information on the share of firms hiring a substitute during a leave period.²¹ On average about 3/4 of the vacant jobs are filled by substitutes. The replacement rate is higher for public employers and for smaller firms. When interpreting these figures, one should however be aware of the fact that the Danish labour market has experienced a strong upswing from 1994 and onwards.

In more than half of the cases (58 percent), the employer knew the substitute beforehand. One out of four substitutes were already working for the same employer and thus just relocated within the firm.

This point is also reflected in table 5.7 which shows the previous employment situation of the substitutes.

The most striking result from table 5.7 is probably that almost half of the substitutes are *employed* before taking the job as a substitute for a particular person on leave. Only a minority of 13 percent report to have been unemployed for more than 3 months. Thus in the case the paid leave arrangements where the employer controls the hiring of a substitute, the normal recruitment mechanisms are not changed. Hiring through informal channels and giving priority to persons with a low previous unemployment is still the normal pattern. On the other hand there is of course the possibility that the paid leave arrangements create job openings for longer term unemployed further down the chain of recruitments (eg. when substitutes are pulled into more permanent employment), but this is not investigated in the present evaluation.

Finally, table 5.8 shows the labour market situation of the substitute after the end of the leave period. On average, 36 percent of the substitutes stayed with the same employer after the

²¹ Table 5.6 and the following tables 5.7 and 5.8 only cover child-minding leave and educational leave, since a substitute is mandatory in the case of leave for sabbatical.

end of the leave period - a figure which can be compared to the information in table 5.6 showing that 27 percent of the substitutes were already employed by the firm before taking the job as a substitute.

The effect of the leave schemes on total unemployment depends on division of the leave takers between employed and unemployed and on the assumptions concerning the share of vacancies being filled by unemployed. In the evaluation, it is estimated that the leave schemes reduced open unemployment by 60-70.000 persons in 1995. Between 2/3 and 3/4 hereof is the result of unemployed taking leave and therefore not being counted in the official unemployment statistics.

5.5.4 The leave schemes: Summing up

The development in the number of persons on leave during 1994-96 clearly indicates that a large parts of both the employed and the unemployed have been attracted by the PLAs. *Clearly, a number of barriers for individuals and firms to PLAs were removed by the labour market reform of 1994. Most important is the removal of the obligation to take in a substitute, when employees take educational leave, and the institution of a formal right for the employees to take child-minding leave.*

However, in relation to the *functioning of the labour market*, evaluations of the PLAs gives ambiguous results. In the short run, they will reduce open unemployment. Also, there are significant effects on job-rotation in the sense that job-openings are created for unemployed, however not always the long-term unemployed.

The risk of PLAs in the longer run is however, that the lowering of the labour supply in the longer run may create wage pressures and a negative effect on cost-competitiveness. This risk is of course increased, if the PLAs leads to bottlenecks on specific parts of the labour market. *One should note however that such risks are not related to PLAs in particular, but to all active labour market policies which somehow reduce open unemployment.*

For the budgets of the public sector, publicly financed PLAs are in the short run a limited net burden, because there are savings in unemployment expenditures. The size of the net costs will depend on the relation between leave compensation and unemployment benefits and on the degree to which substitutes are taken in. To this can be added savings in other areas, e.g. on the budgets of child-minding-institutions.

At the macro-level, the PLAs will furthermore have *effects of a social and political nature*. These effects will in the short run be related to the lowering of registered unemployment following from the PLAs. This implies a step to solve an important social and political problem. Furthermore, one will find an improved quality of life both for the persons on leave and for the unemployed, who become employed as substitutes.

Especially concerning the macro-political level, it is worth pointing to the significant popular support for the PLAs. The main cause is probably their element of work-sharing, which is easy to explain in simple terms. Also, the PLAs seem to fulfill important needs in the daily life of large parts of the population. On the other hand, a number of experts, political parties and labour market organisations have expressed great scepticism towards the PLAs. *Thus, there is a remarkable parallel to the Danish Maastricht-referenda, when looking at the debate over the PLAs. Only this time, the population is for, and the experts and politicians are against.*

Finally, one should note that the Danish debate on the PLAs has been very much influenced by the specific labour-market situation in which they were introduced. One paradox is here, that the decision to introduce them was taken during a period of high and increasing unemployment. But they were implemented during the most powerful economic boom since the mid 1980s. This has been the basis for a growing critique towards PLAs among economic experts.

Therefore it is important to emphasize that in the longer perspective the most interesting aspect of the PLAs may well be that they represent a new way to increase the flexibility of working time over the individual life cycle and thus realize the underlying tendency to the fall in working time that has been seen over the whole postwar period. This trend has traditionally expressed itself as lower daily working hours, longer vacations or a lower retirement age. Here the PLAs represent a further possibility where the individual employee steps back from working life, but only for a limited period of time, to take up further education, child minding or personal development. The experiences with the Danish PLAs indicates that such a flexible reduction of working time fits the preferences of large parts of the population and thus should be an important kind of "transitional labour market" in the future (G. Schmid, 1995; Auer and Schmid, 1997). *In the longer perspective this might be the most significant result of the full-scale experiment with the Danish paid leave arrangements.*

5.6 Effect evaluations of the new strategy

Numerous evaluations of the instruments of active labour market policy targeted at long-term unemployed have been conducted over the years. Among the consistent results are:

- * positive employment-effects of job-training (with wage-subsidy) in private firms while public job training shows no clear results;
- * positive employment-effects of various forms of education with highest scores given to educations within the ordinary system and combinations of education and on-the-job-training;
- * limited employment-effects of special training programmes for long-term unemployed - especially when the programme are of short duration;
- * a risk of adverse-selection effects in the sense that programmes formally targeted at the most vulnerable groups tend to have a large share of more resourceful participants;
- * positive subjective evaluations of almost all programmes when evaluated by the participants themselves - even when the employment effects are limited.

The labour market reform of 1994 has been evaluated during 1996-98. Results have been published from two general evaluations of the implementation process and from a number of evaluations of the effects of the various instruments. A final evaluation of the overall impact of the reform on the functioning of the labour market will be published in August 1998.

The evaluations of the steering reform and the paid leave arrangements have already been discussed. In this section focus is therefore on the results from the effect evaluations of the activation reform (apart from the leave scheme).²² Firstly, results from effect evaluations of programmes for unemployed is presented. Secondly some result from evaluation of activities targeted at firms are discussed.

5.6.1 Evaluations of activation of the unemployed

In relation to the activities for the unemployed, the evaluations have shows a number of remarkable results:

- * The individual actions plans are conceived by the unemployed as positive and relevant instruments to plan their return to normal work.
- * The unemployed were generally satisfied with the programmes in which they took part (job training, education etc.).
- * Based on a large scale longitudinal data set with information on the individual unemployed, it was estimated that most of the programmes also reduced subsequent unemployment for

²² This section is based on a summary of the evaluation results written by the author for the National Labour Market Council, June 1998 (in Danish).

the participants. The exceptions were educational leave (decided by unemployed) and some other forms of education. But both private and public job training and education targeted at increasing the employability of the unemployed had significant effects in the form of lowered subsequent unemployment.

- * Also, not surprisingly, the improved state of the economy since 1994 had contributed to the success of the activation programmes.
- * The programmes directed at the younger unemployed (under 25 years of age) and involving stronger obligations to undergo education and a lowering of unemployment benefits after 6 months of unemployment, have proved to be a success in the sense that most of the young unemployed in the target group left unemployment either to take an ordinary job or begin an education.
- * The "dead-weight" observed when wage-subsidies are used for job-training is limited (level of 20 to 30 percent) compared to international experiences.

These results are mainly from evaluations conducted in 1995-96. Later adjustments of the activation programmes have among others put more restrictions on the educational activities of the unemployed, aiming at ensuring more relevance for employability of the content of the educations taken.

5.6.2 Evaluations of the activities directed at the firms

These evaluations show first of all that the Labour Offices have a limited role in the firms' recruitment of new employees. Often the firms are somewhat sceptical towards the candidates received from the Labour Office and they also find it hard to judge whether the quality has improved after the reform. But on the other hand the evaluations point to the potential for a more goal-oriented strategy from the Labour Office targeting its contact to certain profiles among the firms.

Also, job-rotation gets a very high score from the firms who have actually used job-rotation in further education and recruitment of new employees. Among those firms 60 to 90 percent have a positive evaluation of job-rotation as an instrument for further education and recruitment of new employees. The similar share for firms having no experience with job-rotation is between 20 and 30 percent. Thus there seems to be a large potential for an increased use of job-rotation projects established in cooperation between firms and the Labour Office.

A important aspect in relation hereto will be the way in which the Labour Office handles the dilemma between supporting the firms in their recruitment process and ensuring job opportunities for the hard-to-place among the long-term unemployed.

5.7 Summing up the Danish experience

Danish labour market policy has undergone rather drastic changes in recent years. The share of active expenditures has increased - though it is still low compared to Sweden. The formation and implementation of policy has been decentralised (the steering reform). At the same time the use of instruments and programmes have been changed (the activation reform). For insured unemployed the maximum duration of benefits and participation in activation programmes has been reduced from approx. 9 years to 5 years (from 1999). Emphasis is put on an obligation to full-time activation after only two years of unemployment. For some groups activation takes place at an even earlier time.

In this section, the experiences with the Labour market reform are summarized under the following headings:

- * regionalisation and involvement of social partner;
- * the comprehensive approach;
- * the effects on the functioning of the labour market;

- * the interplay between labour market policy and other policy areas.

5.7.1 Regionalisation and involvement of social partners

The steering reform which was an integral part of the labour market reform involved both a decentralisation of decision making to the regional level and an increased involvement of both the social partners and representative of local government. As discussed in section 5.3, this process involves both advantages and potential risks.

It is the impression from the evaluations of the steering reform that the gains clearly have outweighed the risks. The regional planning is generally of a high quality. The involvement of the social partners has increased. There is a fruitful cooperation between all the actors at the regional and local level. Learning processes and adjustments have taken place to correct the inevitable problems arising along the way.

This being said, there are also some obvious problems involved in the functioning of the steering reform.

One set of problems are related to the dilemma between decentralising responsibility and influence, while at the same time preserving an overall political control with goals and directions of the national labour market policy. Here the evaluation have uncovered a number of problems in setting of procedures that combines regional flexibility in the choice of instruments with national control with the outcome of policies.

One set of problems has to do with the difficulties in defining benchmarks for policy outcomes that measure the isolated effects of policies independently of the regional business cycle and other external factors affecting the measured results. Here current developments is towards more refined quantitative measures combined with evaluations of more qualitative indicators of policy outcomes.

Furthermore the central decision makers must be aware of the risks involved when they directly intervene in regional policies, for instance by setting up new rules for instruments or target groups. This will lead to frustrations on the parts of the regional actors.

At the regional level, the evaluators point to the importance of a clear division of responsibilities where the regional labour market council should take the role of decision maker and coordinator, while at the same time build up formalised institutions of cooperation with the other regional actors and emphasise the need for at coherent set of values and conceptions of problems at the regional level.

5.7.2 The comprehensive approach

One of the driving forces behind the reform of 1994 was the concept of the *comprehensive approach* where the activation of the unemployed should be combined with the effort to upgrade the skills of the workforce in general. In its purest form the idea is found in the *projects of collective job-rotation*, where a group of employees from one or more firms undertake further education and training and substitutes are taken from the ranks of the unemployed - all set up in cooperation between the firm(s), the Labour Office and institutions for labour market education and training. But one can also include *individual job rotation* where single employees go for training and are substituted by unemployed, without taking part in a larger project.

While the traditional approach to activation puts emphasis on education and training for the unemployed, the model of job-rotation focuses on the need for upgrading the skills of those already employed. When they take part in education and training, temporary job vacancies are created, which can then be filled by formerly unemployed, in some cases after special training. One big advantage of the model of job-rotation is therefore, that education and training can be targeted to the specific needs for qualifications of the firms and employees. At the same time the model of job-rotation enables the unemployed to overcome the entry barriers to the firms.

The leave schemes of the labour market reform in 1994 are strongly influenced by the idea of job rotation. The clearest example is the educational leave while leave for child minding and sabbatical mainly creates job openings without leading to an upgrading of the skills of the persons on leave. At the same time the broad acceptance and popularity of the leave schemes is closely connected to the fact that hiring of a substitute is not mandatory but can be decided in each case by the employer (except for leave for sabbatical).

The Danish experiences with the comprehensive approach have in general been positive. The firms who have taken part in job-rotation are very positive. A high share of the job-vacancies are filled by substitutes, though only a minority of these are former long-term unemployed.

At the same time, a number of barriers to the comprehensive approach have been uncovered:

- * Both the employers and the employees may lack motivation for further education and training;
- * Firms may find difficulties in planning ahead to the extent required for collective job-rotation;
- * Collective job-rotation requires a coordinated effort by many actors and often involves complicated paper-work;
- * The firms may be sceptical towards hiring long-term unemployed as substitutes.

Especially the later barrier is probably to some extent depending on the business cycle in the sense that the firms will be more reluctant to hire long-term unemployed in periods with a tight labour market because they fear that the more qualified among the long-term unemployed have already been pulled out of unemployment.

Overcoming these barriers is a slow process which puts demand on both the firms, the employees and the Labour Office and other authorities. One important aspect is the need to be very explicit about the balance between the two sides of the comprehensive approach: the upgrading of the skills of the employed and the integration of the unemployed.

5.7.3 The functioning of the labour market

Identification of a well-functioning labour market can take place at several levels:

- * From a macro point of view one can study the extent to which low unemployment is compatible with low wage inflation.
- * From a micro point of view the well-functioning labour market is characterized by the absence of bottle-necks, an even distribution of unemployment over sectors and regions and a low level for the number of vacant jobs.
- * Finally one may, from the point of view of marginalization, put emphasis on the extent of long-term unemployment and expulsion from the labour market.

There are a number of indicators showing that the Danish labour market during the 1990s on the basis of these criteria shows an improved functionality. Most astonishing is it that the sharp drop in open unemployment and the rise in employment since 1995 has taken place without the rise in wage inflation which could be expected based on the historical experience - for instance from the previous upswing in the mid-1980s. Also the more even distribution of unemployment and the absence of bottle-necks point to a better functioning of the Danish labour market. Finally a number of indicators point to a fall in long-term unemployment and marginalisation although the strength of this development is debated.

Of course, there could be a number of factors behind these developments. Changing attitudes and behaviour of firms, employees and the social partner could be important. The improvement in the state of the labour market in itself has helped to reduce marginalisation. But on the background of the many positive result from both the process- and the result-evaluations of the labour market reform, there is a case for arguing that the change in Danish labour market policy

in 1993-94 has given a significant contribution to the improved functionality of the Danish labour market in the last 3-4 years.

A recent study from the Danish National Institute of Social Research aims at summing up the evidence from the large-scale evaluation programme studying the labour market reform of 1994.²³ The general question asked is whether the labour market reform and the subsequent adjustments in labour market policy has had a positive impact in the functioning of the labour market. Not surprisingly, such a question must be answered with considerable care. However, the evaluators sum up their investigation in the following points (Larsen & Langager, 1998, pp. 34-36).

Concerning the importance of the activation strategy, the empirical analysis shows that:

- * the employment goals specified in the individual action plans indicates that there is a *considerable planned mobility* among the unemployed,
- * labour market policy seems to function effectively in the sense that the planned mobility among the unemployed is *larger* in the regions, where the need for mobility is the highest (due to threats of bottle-necks),
- * on the other hand there are considerable *locking-in effects* in the sense that job-search is reduced during activation,
- * there are *significant positive employment effects* of both job-training and education for unemployed
- * the *effective supply of labour among the insured unemployed seems to have increased* from 1994 to 1997 probably due to the stricter demands made on the unemployed during the second phase of the reform (for instance in relation to the increased demands on the young unemployed).

Concerning the activities directed at the firms, there are indications that the reform has contributed to the absence of bottle-necks since 1994:

- * there is a (weak) indication that *the quality of the services of the Labour Office to the firms has improved* since the reform when looking at the ability to fulfill the needs for qualified labour (though there are also examples of labour shortages in the short run),
- * the introduction of new forms of placement services (in the form of "open" self-service placements) has - together with the surveillance activities and regular contacts with employers - lead to *an increase in the transparency of the labour market* and thus improved its function as a system to match demand for and supply of labour; the market share of the Labour Office however, is still rather low.

Whether these effects of the reform has lead to an improvement in the general functioning of the labour market measured by its ability to adapt to external shocks and to allocate labour efficiently is harder to evaluate.

The lack of significant shortages of labour since 1994 - in spite of the fall in unemployment and strong growth in employment - could indicate that the functioning of the labour market has been improved. Whether this is due to the reform or to other factors (including factors on the demand side like a relatively balanced increase in the demand for labour) cannot be definitively decided on the basis of the available evidence. There are some indicators that point to a improved function of the labour market, but whether structural unemployment has fallen significantly is still to be seen, according the evaluators from the Danish National Institute of Social Research.

5.7.4 The broader perspective on labour market policy

In the larger perspective, labour market policy is moving into focus. To some extent this development mirrors the reduced role of a number of other instruments of economic policy and

²³ Larsen & Langager (1998), cf. also Søndergaard (1998).

employment policy at the national level. Increasingly, monetary policy and to some extent also fiscal policy is coordinated at the EU-level. At the national level labour market policy - together with educational policy and industrial policy - therefore has an ever more important role to play.

In relation to these areas one may point to a more ambitious role for labour market policy than just acting as a labour exchange and activating the unemployed. In the future one may see the Labour Office developing into a role of advisor in the area of training and further education assisting the firms in upgrading the skills of the workforce in line with the ongoing changes in technology. In relation to industrial policy, the labour market authorities will be responsible for the availability of a well-qualified and stable workforce which is an important factor in deciding the location of new firms. *The vision is thus of the Labour Office as a central actor in the development of human resources.*

On the other hand focus must also be on the programmes for the long-term unemployed. Here the economic upswing has in one sense helped to reduce the size of the problem by opening more job opportunities also for the less qualified among the unemployed. But on the other hand those remaining in the group of long term unemployed more often are harder to get back to normal employment. *This bring labour market policy into close contact with social policy in providing programmes that are targeted at persons with a wider range of personal and social problems.*

Finally one should note that the improvement of the general situation on the Danish labour market and the implementation of the labour market reform has taken place in a positive interaction with the economic upswing. The increased demand for labour has provided clear signals for the direction of labour market policy while the latter has been able to lay the foundation for stable economic growth.

At the same time the new situation has also accentuated the potential conflict in the comprehensive approach between the roles of the Labour Office as responsible for development of human resources in general and the role as manager of programmes to assist the long-term unemployed in getting back to normal employment. Developing ways to overcome this conflict is an important aspect of Danish labour market policy in the coming years.

Table 5.1: Total public expenditure on labour market policy, 1994-97, Milliard DKK, constant prices (1997)

Milliard DKK (1997-prices)	1994	1995	1996	1997
Unemployment benefits	35.8	30.5	26.0	24.1
Unemployment pensions	13.3	15.4	18.5	19.0
Child minding leave and sabbatical leave	3.4	4.6	2.9	2.2
Total passive expenditures	52.6	50.4	47.4	45.3
Activation	7.3	5.0	5.2	4.9
Educational leave	1.3	3.7	3.7	2.9
Labour market training	2.5	2.8	2.7	3.0
Total active measures	11.1	11.5	11.6	10.7
Labour exchange	0.9	0.9	0.9	0.9
Work environment	0.4	0.4	0.4	0.4
Misc.	0.5	0.2	0.3	0.4
Total expenditures	65.3	63.4	60.7	57.8
		- percent -		
Active as percentage of total expenditure	17.0	18.1	19.1	18.5

Source: *Arbejdsmarkedspolitisk årbog 1997*, p. 72

Table 5.2: Potential benefits and risks from decentralization and a high level of control over labour market policy from the labour market organizations.

		Decentralization		Influence from labour market organizations
Benefits	*	Accommodation to local conditions	*	Increases the level of information
	*	Increased responsibility and creativity	*	Strengthens the political support for labour market policy
Risks	*	No overall strategy for labour market policy	*	Democratic deficit
	*	Stresses the employees	*	Soft decision-making based on consensus
			*	Policy is controlled by established interests
Controlling risks	*	Central formulation of goals and indicators of results		
	*	Central supervision of regional plans involving dialogue and exchange of information		
	*	Learning processes and building of political culture at regional level		

Table 5.3: Income paid to persons above 25 years of age while activated

		Benefit period (2 years)	Activation period (3 years)
Insured unemployed	Ordinary job-training	Wage according to collective agreements (max. 86 DKK/hour in public sector). Standard working hours. A wage subsidy of 46 DKK/hour is paid to the employer.	Same as unemployment benefits. Weekly working hours are adjusted in order to keep hourly wage in line with collective agreements. This also applies to "pool jobs".
	Individual job training	Same as unemployment benefits	
	Education (incl. educational leave)	Same as unemployment benefits	
Non-insured unemployed	Ordinary job training	Wage according to collective agreements (max. 86 DKK/hour in public sector). Standard working hours. A wage subsidy of 46 DKK/hour is paid to the employer.	
	Individual job training	Same as social benefits plus activation premium (max. approx. 67 DKK per hour). Working hours are set by the municipality.	
	Education	Same as social benefits	

Table 5.4: The Danish paid leave arrangements in the labour market reform of 1994

	Education leave	Sabbatical leave	Child-minding leave
Target group	1. Employed 2. Unemployed 3. Self-employed	1. Employed	1. Employed 2. Unemployed 3. Self-employed
Applicant must be eligible for unemployment benefits?	Yes	Yes	No
Maximum duration	1 year	1 year ²⁾	26 weeks/1 year ³⁾
Right for the applicant?	No	No	Yes (up to 26 weeks)
Mandatory substitute?	No	Yes	No
Amount paid as share of unemployment benefit	100 percent	60 percent ¹⁾	60 percent ¹⁾

Notes: 1) The benefits for sabbatical leave and child-minding leave were originally set to 80 percent of unemployment benefits. They were in 1995 reduced to 70 percent and were further reduced to 60 percent in April 1997. 2) From 1995 the minimum duration of a sabbatical is 13 weeks. 3) From 1995, the right to leave for child-minding is reduced to 13 weeks, if the child is older than 1 year.

Table 5.5: Some benefits and risks of publicly financed paid leave arrangements at the macro level

	Benefits	Costs and risks
<i>Macro-economy:</i>		
Short term	Lower unemployment (C/E/S) Public savings on child care expenditures (C) and unemployment benefits (C/E/S)	Lower production due to lower employment and/or lower productivity of substitutes (C/E/S) Increased public expenditures for paid leave compensation (C/E/S)
Long term	Increased qualifications of labour force (E)	Bottle-necks and wage-pressure (C/E/S)
<i>Social and political level</i>	Increased educational, social and cultural mobility (E/S) Strengthening of family ties (C)	Unequal opportunities of women (C)

Notes: (1) E: educational leave; S: sabbatical leave; C: Child-minding leave

Table 5.6 The share of employers reporting to have hired a substitute during leave periods. Percentage.

Number of employed	Private employer		Public employer		All
	Child minding leave	Educational leave	Child minding leave	Educational leave	
Less than 50	60	36	93	91	76
50 or more	57	53	80	81	71

Source: Andersen et al (1996), table 8.1

Table 5.7 The previous employment situation of the substitutes. Percentage.

Previous employment situation	Private employer		Public employer		All
	Child-minding	Educational leave	Child-minding leave	Educational leave	
Unemployed less than 3 months	9	13	22	15	16
Unemployed 3-12 months	18	9	5	6	9
Unemployed more than 12 months	9	7	2	3	4
Unemployed (duration unknown)	21	35	23	28	24
Employed	45	36	48	48	46
All	102	100	100	100	99

Source: Andersen et al (1996), table 8.7

Table 5.8: The subsequent employment situation of the substitutes divided by employer and leave scheme.

Subsequent employment situation	Private employer		Public employer		All
	Child-minding	Educational leave	Child-minding leave	Educational leave	
Not employed by the same employer	49	33	54	48	51
Employed instead of the person on leave	12	10	4	4	6
Employed permanently elsewhere in the same firm	18	20	14	13	16
Employed as substitute in the same firm	10	19	15	17	14
Not known	11	19	13	19	14
All	101	100	100	101	101

Source: Andersen et al (1996), table 8.9

6. Any lessons to learn?

This final chapter summarizes the analyses of the Danish "employment miracle" of the 1990s.

The starting point is that though one may discuss the specific numbers used, the miracle is not a statistical fiction, but is *real* in the sense that the situation on the Danish labour market has improved considerable over the last 3-4 years. This new situation can be measured along several dimensions including employment growth, lower total unemployment, reduced marginalization etc. While one cannot seriously argue that all major imbalances on the Danish labour market have been solved there are clear signs of an improved situation compared to the early 1990s.

One striking feature is that the shift towards higher employment and lower unemployment until now has taken place without signs of serious bottle necks and wage inflation. This could point to a decline, not only in total unemployment but in structural unemployment as well.

Focus in this study is on the Danish labour market in recent years where both the dramatic fall in unemployment and the labour market reforms commenced in 1994 have attracted international attention. However - as already noted in chapter 1 - one could also include under the heading of a Danish "employment miracle" the *very high over-all employment ratio*, which in the longer run is observed on the Danish labour market. During the last forty years - and irrespective of the business cycle - more than 70 percent of adult Danes have been employed. Thus - in spite of the disincentives to work sometimes associated with a welfare state characterized by high taxes and generous social benefits - the Danish model seems to support - and not restrict - a well-functioning labour market also in the long run.

6.1 Explaining the falling unemployment since 1994

In this following section a number of possible factors behind the fall in unemployment in recent years are discussed. The section is organized along the lines suggested by the general framework of the ILO Country studies.

Macroeconomic policy

As described in detail in chapter 4, the macro-economic factors causing the boom in employment and the fall in unemployment can be easily identified. Slow growth in domestic demand and a positive development in exports had created a solid surplus on the external balance in the early 1990s. An expansive fiscal policy in 1993-94 combined with falling interest rates and weaker restrictions on loans based on private homes caused an increase in public and - later - private consumption and investment. A classical demand-driven upswing was started - in many respects similar to the boom of the mid 1980s. Only this time the buffer - in the form of the surplus on the balance of payments - was larger.

However recently (June 1998) the Danish Government has been forced to announce a tighter fiscal policy in order to avoid a threatening external deficit and problems with the supply of qualified labour. The planned total reduction in economic activity is estimated to 1 to 1.25 percent of GDP in 1999.

Enterprises

The present upswing has involved both the private and the public sector. As noted in chapter 4, a striking aspect of the Danish employment system is the predominance of small and medium sized firms and a very high level of mobility between jobs. Therefore job tenure in Denmark is among the lowest in Europe and at the level of that found in the UK and the US. Despite the smallness of Danish firms which might itself increase job-mobility between firms, an important factor is the few restrictions imposed on the hiring and firing practices of both public and private firms.

Tax and contribution system

As shown in chapter 2, the Danish tax and contribution system is characterized by:

- * A dominance of direct personal taxation and few social security contributions paid by the employers.
- * Rather high average income taxes and especially a high marginal taxation also on ordinary incomes.

To some extent, the lower social contributions paid by employers are mirrored by higher direct wage costs, implying that the cost advantage to firms following from the low level of social contributions is not as pronounced as one might think. In a recent comparison of total wage costs (including indirect wage costs), total hourly wage costs in Denmark in 1996 were at the same level as in the other Nordic countries and Austria, but almost 20 percent lower than in Germany.²⁴

As a consequence of the high rate of marginal taxation, concern has been expressed that it might - in combination with income related social benefits (support for child care, housing benefits) - cause serious economic disincentives to labour supply, especially at the lower end of the income scale. However, the relevance of this observation for explaining the higher unemployment among low skilled workers is disputed, since other factor (including changes in the demand for qualifications) may also be involved.

²⁴ DA: *Arbejdsmarkedspolitisk rapport*, 1998, p. 118.

The industrial relations system

In chapter 3 the details of the Danish industrial relations system were explained. The most important features are:

- * A high rate of organization especially at the employee's side.
- * A dominant role of collective agreements in deciding wages and work conditions.
- * A positive support from the state in setting up mediating institutions to guarantee the smooth functioning of the IRS-system (for instance in settling industrial disputes).

In relation to the analysis of the present success of the Danish employment policy, the main contributions of the Danish IRS-system are probably:

- * The wage restraint accepted by the trade union leadership and the diffusion of the rate of international wage growth as a wage norm within the system.
- * The acceptance by the trade unions of a low level of employment protection in exchange for generous unemployment benefits.
- * The trend towards wage and working time flexibility following from more decentralized bargaining on wages and working conditions.

The education and training system

The structure of the labour market education and training system was explained in chapter 3. The most important aspects of the Danish system are:

- * The public system for both basic and adult vocational education and training operates under strong influence from the social partners.
- * The training and education system is targeted at the workforce in general (based on the concept of life-long learning) and not solely at the unemployed.

This system has functioned for numerous years. However, the labour market reform from 1993-94 allowed for a more flexible use of adult education and training. A separate reform of the education and training system in 1997 has streamlined the system further and also introduced more economic incentives for the suppliers of adult education and training. Also, at an important part of the reform, the integration of the unemployed using training and education to an increasing degree takes place through job rotation and leave schemes.

Labour market policy

Danish labour market policy has undergone important changes since 1993-94. These changes involved firstly a *steering reform* implying a decentralisation of policy implementation to regional labour-market authorities, which were empowered to design activation programmes in line with local needs. Secondly, the reform contained an *activation reform* with the following elements:

- * The creation of a two-period benefit system for the insured unemployed with strong emphasis on activation during the second period.
- * A change in the assistance to the long-term unemployed from a rule-based system to a system based on an assessment of the needs of the individual unemployed and of the local labour market (introducing the so-called "individual action plan").
- * The removal of the connection between job-training and the unemployment benefit system which meant that participating in job-training no longer would extend the right to obtain unemployment benefits, if a person became unemployed after the training period.
- * The introduction of a number of paid leave schemes to encourage both employed and unemployed people to take leave.

Evaluations of the reform demonstrate that both the steering reform and the activation reform in many respects have been successful. Regional labour market policy has become more adapted to local needs and most of the activation instruments and the leave schemes have positive

effects when evaluated at the micro level. Also there are indications that the general functioning of the labour market has been improved.

The social security system

As described in chapter 3, social security in Denmark offers some protection to income losses to those groups that are not covered by unemployment insurance. Basically the amounts paid to unemployed as social assistance are in line with the amounts paid to insured unemployed with the important difference that means testing takes place. For instance, for a married couple this implies that social assistance will normally not be paid to one spouse if the other is working or has some other source of income. But apart from this situation, the debate mentioned above concerning economic incentives to work etc. also applies to these groups.

Furthermore, as far as activation is concerned, recipients of social benefits are activated using basically the same set of instruments as insured unemployed. Only, since they more often have other problems than just lack of work, the activation mix may differ.

The interplay between the social security system (administered by the municipalities) and the state-operated labour market system is a permanent friction area in Denmark. In the present situation where the number of insured unemployed is falling, more and more insured unemployed with social or health problems are becoming visible, thus stimulating this discussion once more.

The working time regime

The most striking features of the Danish working time regime are:

- * The lack of state regulation except for laws on holidays, the so-called eleven-hour-rule (there must be 11 hours between the end of one work-period and the beginning of the next period) and regulations on maternal leave and other form of leave. But regulations of normal weekly working time, shifts, overtime and weekend work are all part of the collective agreements.
- * The fact that employees working part-time generally follow the same collective agreements as those working full-time.
- * The increased similarities of the working time patterns for men and women.

Thus the Danish working time regime must be described as extremely flexible and adaptable to both individual needs and to the specific situation of the firm or sector in question.

6.2 The mix of factors behind the Danish employment miracle

Not surprisingly, it is hard to identify one single factor behind the successful development on the Danish labour market both in the longer run (indicated by the high employment ratio) and in recent years.

Firstly, a number of *background factors* are important:

- * a high level of job-mobility established in an interplay between an industrial structure dominated by small and medium sized firms, weak employment protection and generous employment benefits;
- * a well developed system of public labour market education and training which functions in close relation with the social partners and the qualification needs of the individual firms;
- * a long tradition for close cooperation between the social partners and government;
- * a number of public institutions established to promote collective agreements and involvement of social partners in the policy process;
- * a significant change during the 1980s in the priorities of trade unions away from short sighted wage claims and towards acceptance of broader and longer term goals as far as working conditions and income are concerned.

Also - and very important to the high overall employment ratio - one must highlight the *high participation rate of women*, which is stimulated by the services of the welfare state in relation to child care and care for the elderly. At the same time the welfare state is the most important employer for working women and also - through the education system - provides them with the necessary qualifications.

These factors have characterized the development of the Danish employment system over a long time period and have undergone only gradual changes. While they can contribute to a general picture of a well-functioning labour market with a high employment rate, they are insufficient in explaining the dramatic change on the Danish labour market in the mid 1990s.

There one most add:

- * the positive macro-economic effects of a traditional demand driven upswing made possible by a solid surplus on the external balance;
- * the effects of the new design of labour market policy implemented from 1994 and onwards and including a more active and flexible approach to activation and the idea of combining the fight against unemployment with the fulfilment of other goals through leave schemes and job-rotation.

Whether the labour market reform of 1994 and the subsequent changes in labour market policy have resulted in a sufficient fall in structural unemployment to allow for a long and stable economic upswing remains to be seen. Though there are as yet no clear sign that tighter labour market has fuelled wage inflation, it could be just round the corner, if unemployment falls to rapidly and activation policies aimed at lowering structural unemployment cannot keep pace with the rising demand for labour. The change of fiscal policy in the Summer of 1998 was without doubt caused by such fears combined with the worsening of the external balance.

Also, in the Fall of 1998, it has been decided to make important changes in the labour market policy in 1999. These involve a further shortening of the period in which a person can passively receive unemployment benefits from 2 to 1 years (6 months if under 25 years of age) and restrictions of the early retirement scheme for member of unemployment insurance funds (in order to reduce the strong incentives to early retirement found in the present scheme).

6.3 Final remarks on transferability of the Danish experiences

As always in comparative policy analysis, the question of the extent to which the Danish experiences can be transferred to other countries is complicated.

On the one hand, one can make the observation that in many respects the "Danish model" in its present form is the outcome of a long historical process and is characterized by a specific "fit" of the different elements in the Danish economic, social and political structure. This involves:

- * an industrial structure with many small and medium sized firms;
- * a generous state financed system of unemployment benefits;
- * a welfare state supporting a high participation rate for both men and women;
- * a well developed public system of education and training;
- * a set of industrial relations which involves the social partners in all policy areas of relevance to the labour market.

Taking isolated elements of this set of institutions and policies and attempting to import them to other social environments has a high risk of not being successful.

On the other hand some of the factors explaining the current success of Danish employment policy could be relevant also on other contexts.

Firstly, the Danish experience point to the importance of the macro-economic environment. By themselves, labour market policies cannot generate ordinary jobs. A sufficient "pull" from the demand side is a necessary condition. In the other hand, once the upswing is on its way, labour

market policies plays an important role in securing the supply of qualified labour and avoiding bottle necks.

Secondly, some of the specific elements in Danish labour market policy in recent years could be of relevance for other countries:

- (i) The idea of *decentralisation* making labour market policy more adapted to local needs; also the stronger involvement of the social partners has proven successful, but can of course only be implemented in an environment with a well developed industrial relations system.
- (ii) The concept of the *individual action plan* which signifies a more flexible and individualized approach to activation and training of the unemployed.
- (iii) The concepts of *job rotation and leave schemes* where upgrading the skills of the workforce in general (or fulfilling other needs of the employed workers) is combined with education and training of unemployed to fill in as substitutes. Here one important Danish experience is that the spread of such programmes is stimulated by removing strict requirements on the hiring of substitutes. Another experience is that such programmes may function well both as individual job rotation and planned job rotation involving a number of employees from one or more firms.

Apart from these more specific elements one can finally point to the way in which the Danish employment system combines a very flexible employment relationship with only few restrictions with a good coverage of the unemployment benefit system and the principle of right and duty to activation.

Thus in a number of ways (for instance dismissals, labour market education and training and working time regulations) the Danish employment system combines a high level of flexibility with a reasonable level of protection for the individual employee. This is accomplished not by putting strict legal demands on behaviour of the individual employers, but by setting up institutions that facilitate both negotiated solutions involving the social partners and flexibility at the individual level in moving between firms and jobs. *Thus the Danish model points to the feasibility of a strategy of negotiated flexibility and individual protection as an alternative to more liberal and market oriented models of the employment system.*

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