Impact evaluation of the European Employment Strategy – Denmark

Synthesis report
Preface

The Danish evaluation of the implementation of the European Employment Strategy presented in this report is based on research and analysis conducted by The Danish National Institute of Social Research supplemented with other research findings and findings in evaluations conducted by a number of Danish ministries. Data and methods used in the report are described in appendix 1. The assessments and impact evaluations presented in the report are based on judgements made by the research team at The Danish National Institute of Social Research responsible for the evaluation. For each of the ten themes mentioned in the guidelines for the evaluation there has been produced a working paper with a detailed analysis of the developments in these policy areas. These working papers are submitted together with this report and contain more detailed information on the issues mentioned for each of the themes in the guidelines for the evaluation.

This report is based on the analysis presented in the inception report and the interim report with a special emphasis on horizontal issues and a judgement of similarities and differences in the contents of Danish employment policies compared with the employment guidelines of the European Union.

The Evaluation has been conducted by a research-team at The Danish National Institute of Social Research headed by Research Director Niels Ploug. The Research Team have discussed initial findings and drafts with representatives for the Danish Ministry for Employment – and have presented drafts of working papers and the interim report for a number of Danish Ministries.

Niels Ploug
Copenhagen, February 2002
Introduction

The Danish welfare state belongs to the Nordic Welfare state type and is characterised by a fairly generous benefit level and a high coverage. Almost every citizen is covered by the social security system and is compensated in the event of unemployment. The Danish unemployment rate was high in the beginning of the 1980s and the beginning of the 1990s.

In 1993 the Danish government shifted and a government headed by the Social Democratic Party came into power. This government loosened the otherwise fiscal economic policy and started a number of reforms of the Danish tax- and unemployment protection system in order to increase employment and decrease unemployment.

The unemployment rate began to decrease in 1994 and a few years later became one of the lowest in the OECD area.

The reforms of the unemployment protection system strengthened the active labour market policy and tightened the eligibility criteria for becoming a member of an unemployment insurance fund. The benefit level remained at a high level (for low income groups) compared with other OECD countries but the maximum time for receiving benefit was shortened and the right to benefits was connected to an obligation to participate in active labour market measures.

The labour market reforms during the 1990s to follow up on the 1994 reform was backed by a broad coalition of parties in Parliament – and was only put through to adjust the active labour market policies to the developments in the labour market – and not for budgetary reasons.

The organisational structure of the unemployment protection system was decentralised, which strengthened the role of the social partners and thereby corporatism. The decentralisation made it easier to target the effort towards the individual unemployed and towards the local labour market. The effort was also more targeted towards the individual unemployed by introducing individual action plans for the unemployed person.

Denmark is the only country among the Nordic Welfare States – and in the European Union – who during the 1990s has been able to one the one hand to reduce unemployment significantly and on the other hand to increase both the labour force participation rate and the employment rate.

Summary of descriptions and analysis of the ten themes in the evaluation

Theme 1 on ‘prevention and activation policies for the unemployed’ describes the Danish labour market reform of 1994 and the adjustments of the reform during the 1990s. The fall in unemployment in general and for specific groups in the labour market is documented and the changes in organisation leading to a process of decentralisation of decision-making are described.

Based on the analysis of changes and adjustment of the 1994 labour market reform – an important cornerstone in Danish labour market policies in the 1990s – the need for a revised concept of activation measures is suggested. Entering the new millennium the agenda for labour market reform and active labour market policies seems to have changed somewhat in Denmark. Due to the success of the policies in the 1990s and due to demographic developments the focus of the policies will have to change from efforts to bring into the labour market persons with relatively good qualifications to efforts to enable persons with reduced work capacity to be active in the labour market. This calls for more flexible forms of employment and puts great emphasis on the development of policies that supports the creation of a more inclusive labour market. It is stated that success for the active labour market policy will come less easy in the coming years – and policy developments will
have to be based on a number of ‘trial and errors’ in the effort to create the measures that will insure the possibility for everybody to take an active part in working life.

Theme 2 on ‘tax-benefit reforms’ analyse a number of major social security schemes of particular relevance for the ‘unemployment trap’ and the ‘poverty trap’. The selected schemes include personal taxation, unemployment insurance benefits, social assistance, housing benefits, and parents’ payment for subsidized child-care and early retirement.

The analysis shows that even though reforms were not implemented as a part of Danish employment policies they did work in the direction of increasing incentives to work especially for families with children – and as a gender aspect in the reforms they had a special positive effect for lone parents, i.e. lone mothers. The most significant change took place in the area of early retirement where the specific purpose of the reform – in accordance with the Employment Guidelines – was to maintain older people in work.

Theme 3 on ‘lifelong learning’ discusses the conceptual problems related to the issue and underlines that cultivation is an important – and often overseen – aspect in descriptions of the aims of lifelong learning. The overall conclusion of the analysis based on the description of policy developments is that the political goals of preventing school dropouts and increasing the number of persons who accomplice upper secondary education and higher education have been targeted by the reforms.

Based on a new analysis on data from the 2000 Level of Living Conditions survey it is concluded, that formal educational qualifications are important by themselves but also because they influence people's participation in informal education positively. The analysis shows that those who already have an upper secondary education or a vocational education take part in lifelong learning to a far greater extent than those who are less educated or do not have a vocational education.

Because of their educational background the unemployed participate less in formal learning and informal learning than for example the large group of wage earners. People in rural districts are the last group to be accentuated in connection to the fulfilment of the objective about “lifelong learning for all”. The geographical dimension is another important aspect. People living in rural areas take less part in education, than do people living in the more populated areas of the country.

These results point to the fact that danger of educational polarization exists, which goes right against the intentions of diffusion of lifelong learning.

Theme 4 on ‘social inclusion’ sets out from the fact that even though the registered unemployment rate in Denmark has decreased from 13 percent of the labour force in 1994 to around 5 percent today there is still a considerable group in the working age, receiving transfer incomes, such as cash benefit, long-term sick benefit and anticipatory pension.

Looking at the measures to deal with the employment problems of different disadvantaged groups it is stated that activation has contributed to a more flexible labour market, where the supply of qualifications of the unemployed corresponds with the demands from the enterprises. It is estimated that 3-4 percentage points have reduced the structural level of unemployment. The activation line has so far been a success as long as it coped with the ‘strong’ unemployed persons, but it is questionable whether the same active measures also can cope with the disadvantaged groups.

Theme 5 on ‘administrative simplification and self-employment’ describes the policy change from a traditional strategy with support to the individual entrepreneur to a policy that aims at creating better framework conditions for small enterprises and new entrepreneurs. The analysis indicates positive effects of this policy change in relation to the sustainability of the enterprises that are created. It
is underlined that the policy of reduction of administrative burdens for small business should be rightly understood. It is not a policy of returning to a system where small business could act without being transparent to the authorities. On the contrary, they talk about a simplification that does not reduce the amount of control. This task is not as easy as the first one mentioned, but they seem to have obtained that the system at least has not become more complicated and troublesome.

Theme 6 on ‘employment creation in the services and in the local and social economy’ has its main focus on the 1996 Act on Home service, which has several objectives. One objective is to provide employment for persons without education who have otherwise difficulties in finding a job, and to fulfil the needs of families with children where both spouses are working and therefore have not much time left for housework. Another objective is to change these activities from black labour into white labour by giving a subsidy that roughly equals the tax, and by these means turn these activities into livelihood for persons of whom a part would probably otherwise claim public support.

The Home Service Scheme can be seen as a step on the way to the new policy. The scheme intends to create and promote a new niche of economic activity and satisfy a need that has not been adequately satisfied before. At the same time is does so by using quite traditional means in the form of support to each working hour being produced.

Theme 7 on ‘taxation’ set out by describing the 1994 tax reform. This reform introduced a new concept in Danish personal taxation that of a general social contribution (The Labour Market Contribution) levied on earned income (income from work). This general contribution was for financing expenditures related to the labour market, primarily unemployment benefits and active labour market measures. It is levied on gross income minus contributions for employer administered pension schemes and also carries the label, ‘the gross tax’.

The analysis shows that changes in the Danish tax system have not been directed towards an increase in incentives of unemployed and inactive persons taking work. The changes in the average taxation during the 1990s are very small, and smaller for low-income than for high-income earners. In connection with the very small labour supply elasticity this indicates that the evolution in labour taxation has not had an impact on the incentives for unemployed and inactive persons taking work as mentioned in the Employment Guidelines. This conclusion is very much in accordance with the political goals in Denmark during the 1990s when changes in the tax system were not used as an active tool in the policies to increase employment.

Theme 8 on ‘modernising work organisation’ states that he questions regarding flexibility on the labour market are generally very different in Denmark compared to other European countries. There are no major legal constraints of flexibility on the Danish labour market, where most regulation is the subject of collective agreements. At the same time there has been very little political will to interfere with the process of collective bargaining during the 1990s. Moreover, the Danish labour market is already very flexible and has become even more so over the last decade. The collective bargaining has been largely decentralised, thus leading to a greater flexibility in the way firms can organise the use of their workforce, mainly in relation to working hours.

The analysis points to the fact that in a situation with almost full employment the policies have not been directed towards the redistribution of work through flexible working hours and part-time employment but rather directed towards an overall improvement of labour supply. Evidence of the use of modern and flexible forms of work organisation is presented with a conclusion that these organisational forms in general are furthering stable employment relationships.

Theme 9 on ‘equal opportunities’ sets out from the fact that compared to women in other countries Danish women have very high employment and activity rates. But at the same time Danish women
have lower employment and activity rates and a higher rate of unemployment than Danish men. Furthermore, the Danish labour market is gender segregated – the jobs men and women hold are very different, and the average wage level is lower for women than for men.

The overall results of the analysis are that the gender perspective to a great extent is missing in the general labour market policy in Denmark. The impact evaluation points to the fact that on the one hand equal opportunities have not been a main purpose of labour market policies. On the other hand the mainstreaming principle, which entered the guidelines in 1999 and the Danish legislation in 2000, implies that the public authorities are to promote equality and to incorporate the equality aspect into all their planning and administration.

Theme 10 on ‘policy making’ concludes that active labour market measures were significantly enhanced by the 1994 labour market reform. In 1998, the social policies underwent a similar development as legislative changes introduced active social policies. Improving labour market attachment for people in either system and encouraging more collaboration of non-state actors were common goals of the two reforms.

The obvious features of parallelism represent an innovation in Danish policy. Historically, social and labour market policies have been treated separately. Each corresponds to its proper ministry and quite different systems of policy formulation and implementation have evolved making it appropriate to speak of two distinct pillars.

In sum the administrative changes with and emphasis on decentralisation and a focus of furthering the involvement of social partners in the formation and implementation of active labour market policies are described as very positive with respect to the future challenges for labour market policies. Even though it is difficult to point to important quantitative effects on employment of these changes they constitute an apparatus that is more able to deal with the future problems for active labour market policies than was the old centralised and polarized system.

**Danish employment policies in relation to the European Employment Strategy**

The objectives of the European Employment Strategy include the achievement of a high level of employment, the promotion of a skilled, trained and adaptable workforce and labour markets responsive to economic change, the reduction of unemployment, and a significant increase in the employment rate on a lasting basis including a rise in the overall employment rate to 70 percent in 2010 – with a specific goal of an employment rate of more than 60 percent for women.

The evaluation of Danish employment policies presented in this report clearly shows a development of policies that have been in accordance with the objectives of the European Employment Strategy and results of the policies that have enabled Denmark to fulfil the overall goals of the strategy. As one of few countries in Europe Denmark has been able to reduce unemployment significantly and at the same time keep an overall employment rate, which is higher than the 2010 goal of the Employment Strategy – and specifically an employment rate for women, which is also higher than the 2010 goal. These results have been achieved on the basis of a positive economic development combined with employment policies that have ensured a flexible labour market and a flexible labour supply avoiding bottle neck and wage pressure problems on the labour market, which prevailed during the short upturn of the Danish economy in the 1980s.

Since the formulation of the first National Action Plan for employment in 1998 the objectives of the Employment Strategy have entered Danish employment policies. As Danish employment policies also before 1998 were very much in line with what became the objectives of the Employment Strategy the implementation of the Strategy has not led to a significant shift in Danish policies. This said
it is clear – also from the evaluation presented in this report – that a number of precise targets, which where taken from or inspired by the Employment Strategy, and deadlines for the fulfilment of these targets entered Danish employment policies through the National Action Plans.

It is difficult to assess whether similar objectives would have been formulated as part of Danish employment policies without the Employment Strategy but it is evident that the Employment Strategy serves as a source of inspiration for policy developments and influences the focus of policies.

The setting up of deadlines for the achievement of specific goals is one very important result of the process initiated by the Employment Strategy. As already mentioned, it is not a problem for Denmark to reach the overall goals of labour market participation and employment for both men and women. In a number of more specific areas goals and deadlines have been formulated of which evaluation points to the fact that there is room for improvement if the goals are to be met. One such area is within the theme of lifelong learning. Here the evaluation based on new analysis documents the relation between general educational level and participation in lifelong learning underlining the fact that the likelihood of participating in lifelong learning is higher for people with a higher education. In that respect the Government goal of higher education for at least 50 percent of each youth cohort and the fact that this has only been reached by 40 percent of youth cohorts this far becomes important. Another area has to do with the creation of employment opportunities for disadvantaged groups on the labour market. Even though there has been a positive development in job opportunities for disadvantaged groups on the Danish labour market this is an area where improvements are needed in order to meet the goals set by the Government.

Looking at the organisation of employment policies and the flexibility of the Danish labour market the overall picture is quite positive. Employment policies have been implemented during the 1990s based on decentralisation of decision making in order to secure a flexible adjustment of policies according to needs on the local labour markets. Social partners have been involved in the formulation and implementation of policies and a number of new bodies to secure the cooperation between public authorities (state or municipality level) and social partners has been created. The possibility to use flexible working hours as part of the employment policies has been expanded during the 1990s through the general agreements on the labour market; and flexicurity, i.e. a positive relation between labour market needs for flexibility and employees’ need for social security, is quite high in Denmark.

**Recommendations for a future European Employment Strategy**

Using the evaluation of the Employment Strategy in Denmark as an input to the revision of the Employment Guidelines one can point to the following:

There is a need to maintain and maybe even further the focus on the guidelines on the qualifications of the workforce. It is a truth underlined by the employment development in Denmark during the 1990s that the qualifications of the individual unemployed are crucial for the possibilities of re-entering the labour market. The potential for achieving new qualifications is very much determent by the individual’s general level of education. Therefore, the guidelines should underline the impact of general educational policies on the success of employment policies.

As unemployment has fallen there is a growing need to focus on the labour market position of disadvantaged groups. Due to demographic developments and as a consequence of the success of employment policies in the 1990s further improvements in labour market participation of disadvantaged groups will be needed. An increased focus on the labour market participation of elderly workers is also needed.
These challenges of the future can only be met through policies aiming at the creation of a more inclusive labour market. For such policies to be successful they need to be developed and implemented in close cooperation with the social partners. The behaviour and attitudes of employers are of special importance. The evaluation of Danish employment policies shows that labour market measures in which employers are actively engaged are the most likely to give a positive result. But the cooperation of other social partners is also important. The creation of an inclusive labour market in which the work potential of long-term recipients of cash benefits, people with reduced work capacity, refugees, elderly workers – and other groups in the periphery of the labour market of today – calls for a joint effort of employment, social and educational policies. Policy developments in Denmark as described in a number of themes in this report – and synthesized in the analysis in theme 10 – point to one possible direction for future policy developments aiming at the creation of an inclusive labour market.

PILLAR I: EMPLOYABILITY

Theme 1: Prevention and activation policies for the unemployed

1.1 Background

When the initial Egl No.1 and 2 (now Egl No 1) in 1997 emphasized the need for a clear shift from a curative to a preventive approach, the Danish Labour Market Reform of January 1st 1994, which encompassed some elements along the same lines, was already in progress.

The labour market reform had three main principles:

- **Needs-orientation.** The activation of unemployed persons must be based on the needs of the individual unemployed person and the regional labour market.

- **Decentralisation.** The management of the labour market has been delegated to the regional labour market councils, which prioritise the labour market policy according to regional needs – within a financial framework and central targets and result objectives.

- **Involvement of the social partners.** The social partners are involved to a greater degree in the management of the labour market policy, through participation in the regional labour market councils and the central National Labour Market Council, which acts in an advisory capacity in relation to the Minister for Labour.¹

Thus some of the features of the EU Employment guidelines introduced in 1997 were present in the Danish Labour Market Reform of 1994. The labour market reforms in Denmark in the period covered by the EGs, 1998-2001, can to some extend be seen as a development and extension of the existing reform of 1994.

In April 1998, According to the EGs, the Ministry of Labour and the Ministry of Economics jointly launched the National Action Plan for Employment (NAP) and the National Action Plans are now available for the subsequent years 1999, 2000 and 2001 also. Below the policy developments during the period 1994 - 2001 are summarized.

¹ Mærkedahl, 2000: 264
1.2 Policy developments

The 1994 labour market reform did not change levels of compensation considerably, but it did make certain changes in terms of entitlements. First of all, the possibility of re-qualifying for benefit periods by participating in active labour market measures was abolished. At the same time the benefit period was prolonged to 7 years with a minimum right to one year of activation after two years of unemployment. Because of the restrictions on the re-qualification possibilities, the prolongation of the benefit period does not mean that the actual period in which it is possible to receive benefits was prolonged. It was in fact shortened from nine to seven years\(^2\).

A key component of the reform was an effort to strengthen the active measures. It is emphasised that the activation effort must have a basis in the unemployed persons’ needs and possibilities on the local labour market. As an attempt to strengthen the flexibility of the organisational structure and to make sure that individual skills and wishes are taken into account, the reform introduced individual action plans, which are seen as contracts between the public employment service and the unemployed person. These action plans have to sketch the basis of the activities, which should be taken by the unemployed person and an evaluation of the consequences if the individual refuses to participate in an active measure.

The individual action plan should assure that the individual unemployed is taken into account as an active partner and that efforts for this person are tailor made\(^3\).

The reform also resulted in more flexible job training and education possibilities for the unemployed\(^4\).

The reform of 1994 was adjusted in 1995 to provide more people especially young people, more quickly with jobs and particularly training and education. As recommended in the Employment Guideline the measures concerning young people less than 25 years of age receiving unemployment insurance benefits and having no skilled job education was targeted at persons having had 6 months of unemployment within the last 9 months. These people were offered and were obligated to receive job activation.

Furthermore, the decreasing unemployment rate brought in question the risk of bottlenecks in some sectors of the labour market. Also the decreasing unemployment rate made it relevant to evaluate the availability criteria and their administration. Therefore a right and an obligation to full-time activation after 4 years of unemployment was introduced and the availability criteria where tightened. Finally the rules of leave measures were adjusted and the benefit for parental leave and sabbatical leave was lowered.

In 1996 the continued decrease of the unemployment rate made it possible to make an effort to ensure that nobody could stay passive recipients of unemployment benefit for a long period of time. As part of the Finance Act of 1996 it was intended to reduce long-term unemployment, to shorten the periods where the unemployed received passive support and to prompt the unemployed to participate in vocational training.

This second phase of the reform included an intensification of the activation so that the benefit period before the activation period was shortened to two years instead of four years. Consequently the whole support period was decreased from seven to five years. The work condition was tightened

\(^2\) Mørkedahl, 2000: 264; Mogensen, 1995: 38-39  
\(^3\) F. Larsen, 2000: 4-5  
\(^4\) Arbejdsmínteriet, 2001b
from 26 weeks of ordinary work within the last three years to 52 weeks of ordinary work within three years.

The plan of Finance act of 1997 and 1998 included a follow up on the changes in 1996 as the unemployment rate continued to fall and the focus of the labour market policy changed in order to secure labour supply.

The changes in these two years were:

- The entrepreneurial benefit was abolished with a transitional period
- The time limit for the obligation to accept reasonable work was brought forward to 6 months of unemployment within 12 months (earlier it was 12 months within 15 months)
- The demands for geographical mobility were heightened. Now the unemployed had to accept a transport time of 4 hours daily. Before this only 3 hours had to be accepted.
- The rules for unemployed people’s use of vocational training were adjusted. The job centre’s approval of vocational leave depended of the possibility to advise jobs.

The plan of Finance act of 1999 introduced the third stage of the labour market reform. The early retirement scheme was changed in order to make withdrawal from the labour market smoother. Incentives to retire later were introduced. Also employees who wait with their withdrawal until after they become 62 years will get some advantages and if they postpone the withdrawal until after 65 years they will get a tax-discount. These steps were taken in order to keep as much of the older people in the labour force as possible.

The activation period for the unemployed was set to begins after one year of unemployment and the total support period was further reduced from five to four years

The vocational effort towards the unemployed became more targeted in the sense that the unemployed now got the right to 6 weeks of self-chosen education while receiving unemployment benefits. Education of more than 6 weeks must be arranged with the job centres. An expansion of the trainee system was also introduced: The scheme of adult trainees was extended from 2,000 to 5,000 places.

The purpose of activation and the active labour market policy from 1998 and on is more specifically the improvement of the qualifications of the unemployed and the enhancement of the chances of persons getting a job on the ordinary job market without any subsidies to either employer or employee. This was an effect of the Employment Guidelines 1 and 2, which was now implemented in the active labour market policy.

In the Plan of Finance Act of 2000 a new active measure of “service jobs” was introduced for unemployed over the age of 48 who had been in the active period for more than 6 months and for people on the anticipatory pension. The service jobs are of unlimited duration and state subsidised. Also a measure of work apprenticeship was introduced so that the activation effort can include apprenticeships on work places. Finally it should be mentioned that the public job training measures and the pool jobs were joined to one measure.

Table 1 shows how the Danish passive unemployment system has changed during the 1990s. The major changes has been in the maximum number of benefit days and in the conditions for (re)gaining benefits. It is important to remember that the 2½ years of maximum benefit days before

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5 Nososko1996: 9; Mærkedahl, 2000: 264
6 Arbejdsministeriet, 2000
1994 could be regained by attending in active measures making it possible to circulate between active and passive measures for nine years.

All in all the reforms of the unemployment protection system strengthened the active labour market policy and tightened the eligibility criteria for becoming a member of an unemployment insurance fund. The benefit level remained at a high level (for low-income groups) compared with other OECD countries but the maximum time for receiving benefit was shortened and the right to benefits was connected to an obligation to participate in active labour market measures.

Table 1: The development of the Danish unemployment insurance system during the 1990s.

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<tbody>
<tr>
<td>Insured individuals</td>
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<tr>
<td>Age limit</td>
<td>17-66 years</td>
<td>17-66 years</td>
<td>As 1994</td>
<td>19-66 years</td>
<td>As 1996</td>
<td>As in 1996</td>
<td>As in 1996</td>
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<tr>
<td>Waiting days</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Maximum number of benefit days</td>
<td>780 within 3 years (6 benefit days per week in 2½ years)</td>
<td>No</td>
<td>1,820 within 9 years (5 benefit days per week for 7 years)</td>
<td>As 1994</td>
<td>No</td>
<td>1,560 within 8 years (5 benefit days per week in 6 years)</td>
<td>As in 1996</td>
</tr>
<tr>
<td>Conditions for (re)gaining benefits</td>
<td>One-year membership of an unemployment insurance fund managed by the unions. Benefits can be regained by complying with the requirement of 26 weeks’ work within the last 3 years.</td>
<td>As 1994</td>
<td>As 1994</td>
<td>The conditions for regaining benefits are tightened To 52 weeks of ordinary work within 3 years</td>
<td>As 1997</td>
<td>As 1997</td>
<td>As 1997</td>
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<tr>
<td>Is the benefit taxable?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Supplement for children</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
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</table>

It is important to notice that the labour market reforms during the 1990s to follow up on the 1994 reform was backed by a broad coalition of parties in Parliament – and was only put through to adjust the active labour market policies to the developments in the labour market – and not for budgetary reasons.

1.3 Assessment of performance

After the reform period started in 1994 the unemployment rate began to decrease (table 2). Especially there was a decrease in long-term unemployment and youth unemployment but the unemployment rate for the elderly part of the workforce continued to increase for some years (table 3). The participation rate among the 60-66-year-old women has stayed at a low level during the 90s.
One reason for the low labour force participation rate among the elderly is the early retirement pay (efterløn), which was introduced in 1979\textsuperscript{7,8} and reformed in 1999.

### Table 2: Unemployment by sex, Denmark 1994-2000.

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<tr>
<td>Employment/population ratio</td>
<td>72.4</td>
<td>73.9</td>
<td>74.0</td>
<td>75.4</td>
<td>75.3</td>
<td>76.5</td>
<td>76.4</td>
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<tr>
<td>Labour force participation rate</td>
<td>78.8</td>
<td>79.5</td>
<td>79.5</td>
<td>79.8</td>
<td>79.3</td>
<td>80.6</td>
<td>80.0</td>
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<tr>
<td>Unemployment rate (percent of civilian labour force)</td>
<td>8.1</td>
<td>7.1</td>
<td>7.0</td>
<td>6.2</td>
<td>5.5</td>
<td>5.6</td>
<td>4.5</td>
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<td><strong>Men</strong></td>
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<tr>
<td>Unemployment rate (percent of civilian labour force)</td>
<td>7.3</td>
<td>6.2</td>
<td>5.9</td>
<td>5.0</td>
<td>4.5</td>
<td>4.8</td>
<td>4.0</td>
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<td><strong>Women</strong></td>
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<tr>
<td>Unemployment rate (percent of civilian labour force)</td>
<td>9.1</td>
<td>8.2</td>
<td>8.3</td>
<td>7.6</td>
<td>6.6</td>
<td>6.6</td>
<td>5.0</td>
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The important point to be seen in table 2 is the fact that Denmark as one of the only countries in Europe has managed at one and the same time to reduce unemployment and increase both the labour force participation rate and the employment rate.

The overall decrease in unemployment was partly due to a higher rate of employment especially in the private sector, partly a smaller workforce due to an increasing number of persons on parental leave and educational/vocational leave and an increasing number of 50-59-year-old people on a special early retirement pay scheme\textsuperscript{9}, which was abolished in 1996.

### Table 3: Unemployment by age, Denmark 1995-2000.

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<td>Age</td>
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<td>15-24</td>
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<td>25-54</td>
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<td>55-64</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>65.9</td>
<td>81.7</td>
<td>49.3</td>
<td>66.0</td>
<td>82.2</td>
<td>47.5</td>
</tr>
<tr>
<td>Unemployment rates</td>
<td>9.9</td>
<td>6.2</td>
<td>8.0</td>
<td>10.6</td>
<td>6.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Labour force participation rates</td>
<td>73.2</td>
<td>87.1</td>
<td>53.6</td>
<td>73.8</td>
<td>87.5</td>
<td>50.6</td>
</tr>
<tr>
<td>Employment/ population ratios</td>
<td>65.9</td>
<td>81.7</td>
<td>49.3</td>
<td>66.0</td>
<td>82.2</td>
<td>47.5</td>
</tr>
</tbody>
</table>


Long-term unemployment has reduced dramatically during the last part of the 90s (table 4). This is, however, important to see in the light of the active approach, which has increased the amount of hidden unemployment because the time spent in active measures is not counted as part of an unemployment spell. In 1995 4 percent of the labour force were in active measures at the time of count-

\textsuperscript{7} This early retirement scheme made it possible for people who were 60 years of age, who had a long membership period of an unemployment insurance fund and who fulfilled conditions for unemployment benefits to retire at the age of 60. For the first 2 ½ years benefits for the early retired were equivalent to unemployment benefits. After this, benefits were usually reduced. The early retirement scheme was introduced in order to make elderly workers retire earlier in order to make room for the young unemployed and to improve official unemployment statistics (Hansen, 2001: 2-4; Jørgensen & Pedersen, 2000: 43-52).

\textsuperscript{8} Hansen, 2001: 2-4; Jørgensen & Pedersen, 2000: 43-52

\textsuperscript{9} Arbejdsmiljøets, 2001b
ing, in 1999 3.6 percent (table 4). Actually there are indications of a growth in the group of marginalized people among the 50-59-year-olds during recent years\textsuperscript{10}.

Numbers on the annual rate of inflow into long-term unemployment are available for 1997 and 1998\textsuperscript{11}. For the young, 25 years of age or younger, long-term unemployment is defined as unemployment for 6 months. The figures for the inflow of new persons into long-term unemployment for this group were 2,552 in 1998 and 3,146 in 1997. Thus a slight decrease in new young persons turning into long-term unemployment is noticeable.

For the adults, above 25 years of age, long-term unemployment is defined as unemployment for 12 months or more. The figures for the inflow of new persons into long-term unemployment for this group were 5,498 in 1998 and 6,397 in 1997. A slight decrease in new adult persons turning into long-term unemployment is also noticeable.

The level of long-term unemployment has fallen from a level of more than 85,000 persons in 1997 to less than 40,000 in 2001. The definition of long-term unemployment is unemployment for more than 9 months. This drop in the level of long-term unemployment has been caused by a general improvement of the economic situation, but it is also to some extent a consequence of the specific measures set out by the EU Employment Guidelines.

Table 4: Long-term unemployment as a percentage of unemployment, Denmark 1994, 1996 and 1999.

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1996</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6 months and over</td>
<td>12 months and over</td>
<td>6 months and over</td>
</tr>
<tr>
<td>Both sexes</td>
<td>54.0</td>
<td>32.1</td>
<td>44.4</td>
</tr>
<tr>
<td>Men</td>
<td>52.1</td>
<td>31.9</td>
<td>44.2</td>
</tr>
<tr>
<td>Women</td>
<td>55.8</td>
<td>32.4</td>
<td>44.6</td>
</tr>
</tbody>
</table>


The preventive measure for young and adult unemployed has complied with the Employment Guideline. In the period 1999-2000 90 percent of the young newly unemployed were out of unemployment within 6 months. In the same period the 95 percent of the adult unemployed were out of unemployment within one year.

Also the EU-target that educational and training measures should at least be 20 percent of total unemployment was reached in 1998. 30 percent was reached in 2000. In 2000 an average of 13,790 persons were participating in job training courses, of these almost all in the active period. Most job training takes place in the public sector where the municipalities play a special role.

Persons in educational measures were around 30,000 persons in 2000. This is approx. 4,000 less than in 1999. This is due to the lower overall unemployment rates, other measures used by Employment Administration and the overall slightly diminished use of the activation measure.

Budget allocations to activation programmes for the period 1998-2000 are shown in table 5. In general these have been on the same level during the period shown. The small decrease from 1999 to 2000 can be explained by the general fall in unemployment.

The target that every unemployed should have an Action Plan made has not been reached. The target for the young was within 6 months and the target for the adult unemployed was within one year.

\textsuperscript{10} Hansen, 2001: 2-3; Jørgensen & Pedersen, 2000: 43-52

\textsuperscript{11} Arbejdsm ministeriet & Økonomim inisteriet. NAP 2000
Only one in four of the unemployed – both young and adult – had an Action Plan made within the targets in 2000. The reasons mentioned in the NAPs for not reaching the targets were that the high level of quality stipulated as a necessity in the Danish action plans made it very demanding on administrative resources. The unemployment administration was not able to recruit enough qualified people and allocate enough internal resources to this specific task. The goal of NAP 2000 is to reach the target by the end of 2001. As far as the adult unemployed above 25 years of age are concerned the decision to give priority to the long-term unemployed is mentioned as a cause for not reaching the target. It has also not been possible to have a special, new developed on-line computing system function adequately as planned in 2000. This system was meant to have facilitated the production of Action Plans. Measures to improve the computing system have been taken.

Table 5. Activation programmes. Insured/non-insured unemployed, 1998-2000\(^{12}\). M. DKK.

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>14,523</td>
<td>16,188</td>
<td>14,923</td>
</tr>
<tr>
<td>Insured</td>
<td>9,700</td>
<td>11,000</td>
<td>9,500</td>
</tr>
<tr>
<td>Non-ensured</td>
<td>4,823</td>
<td>5,188</td>
<td>5,423</td>
</tr>
</tbody>
</table>


1.4 Impact evaluation

A study of the impact of activation showed that participation in activation programs reduce the number of persons depending on social assistance.\(^{13}\) The study includes both an analysis of persons receiving social assistance and persons receiving insurance payments. The study shows that for the unemployed persons on public welfare all the different measures – except the newly developed activation version of the Folk High School (day time only) – have this positive effect.

Job training in private sector companies is the kind of activation with the greatest effect. This measure on average reduces the yearly period on benefits with two months for the whole group.

The most commonly used measure is activation in employment projects. The effect of this measure is on average only a fifth of the effect of job training in the private sector.

Another commonly used measure is individual job training in the public sector. This measure has a limited effect of reducing dependence on welfare with an average of only 3 weeks per year.

The effect of activation is greater for people on social assistance for a longer period and with frequent periods of social assistance than for people only on social assistance for a short period and non-frequently. For young people below 25 years of age the effect of activation is considerably smaller compared to the older social assistance receivers. This is primarily due to the fact that the young are activated after 6 months unemployment. Compared to 12 months for the older group. Taking the swifter implementation of the activation measure for the young into account the effect can be measured as slightly greater.

As mentioned above the study also includes a sample of unemployment insured persons. The effects of activation are shown to be similar for people receiving social assistance and for people receiving unemployment insurance. Only the effects of activation for young people who are insured against unemployment are slightly greater than for the same age group on social assistance.

\(^{12}\) Arbejdsministeriet & Økonomiministeriet. NAP 2001.
The results of the effect analysis mentioned above confirm the results of an analysis carried out by the Ministry of Labour\textsuperscript{14} on a sample of persons receiving unemployment insurance payment. This analysis concludes that the existence of the activation program is a factor in motivating the unemployed to seek job. And it makes more unemployed find a job even before the activation period. Activation is also enhancing the qualifications of the unemployed and thus the probability of the unemployed getting a job.

A survey\textsuperscript{15} carried out in 1999 shows that 78 percent of the unemployed who had been in activation projects stated that they would have participated even if it had been voluntary. Asked a number of questions on their experience after activation, 89 percent of the same group had actually either gotten a job or had ‘moved’ towards employment in the ordinary labour market: they had either improved or maintained their qualifications, been more intensely seeking a job, looked for new types of jobs and that more often a longer way from home. According to the same survey about half of those completing an activation project and obtaining a normal job afterwards state that the new job can be fully ascribed to their participation in the activation project.

The marginal group can be defined as persons who have been unemployed, activated, on training leave or signed up at the Public Employment service as non-insured unemployed persons for more than 80 percent of the time within the past three years. This group has been reduced from a total of more than 130,000 persons in 1994 to 55,000 in 1999.

The Impact of the Danish Employability Enhancement Programmes as far as prevention and activation policies for the unemployed are concerned have much to do with the initial activation policy of 1994. But in significant ways the guidelines based on Egl No 1 & 2 have influenced and reshaped the policy.

The active labour market policy has been beneficial for the level of long-term unemployment and it has counteracted marginalisation.

Job training and education has had a significant positive effect on the employability of the unemployed and it has contributed to the flexibility and transition to new production types in the companies. This has been important from the employers’ point of view since the inflow of young, newly educated labour has been reduced due to the demographic development.

Training leave for the unemployed has on the other hand been shown not to have any positive effect on subsequent employment. This measure was abolished. The effects of activation measures are growing with the level of education of the unemployed and they are smaller with growing age. On the one hand he activated persons generally take a positive view to the activation measures they are offered. On the other hand more than 25 percent of the unemployed find a job themselves up to the actual date of activation. The most common reason mentioned for this is avoiding the activation measures.

Generally the effects of activation for persons aged 50 years or more are negligible as compared to the younger group. The greatest effects are seen in the age group between 30 and 49 years of age.

There are many signs which indicate that the active line has lead to a more efficient supply of labour and the impact on the labour market of the Danish Employability Enhancement Programmes have reduced the mismatch problems. Some of the effects of upgrading the qualifications of the unemployed are also beginning to show.

The signs of bottlenecks in the labour market have been small compared to what was seen during the similar economic recovery in the 1980s, cf. the description of labour market problems in the 1980s in the Danish inception report.

Activation of the unemployed in the form of job training in the private sector has proved to be the most effective measure. This measure is the one that will lead more unemployed into a permanent job as a consequence of the employer getting to know the qualifications of the unemployed and wanting to keep him or her on a permanent basis.

Job training in the public sector has a much smaller direct impact on employment due to the fact that jobs are created with activation of unemployed in mind and when the activation period for one person is over the position has to be occupied by a new one. Also activation in the private sector is more closely related to actual production needs and not so much to arbitrary quotas and rules.

In the current economic situation the activation measures proposed should perhaps be more targeted at the private sector. The need to revise the whole concept of activation measures is becoming more apparent as the overall unemployment and long-term unemployment figures have become much lower than in 1997. Entering the new millennium the agenda for labour market reform and active labour market policies seems to have changed somewhat. Due to the success of the policies in the 1990s and due to demographic developments the focus of the policies will have to change from efforts to bring into the labour market persons with relatively good qualifications to efforts to enable persons with reduced work capacity to be active in the labour market. This calls for more flexible forms of employment and puts great emphasis on the development of policies that supports the creation of a more inclusive labour market. Success for the active labour market policy will come less easy in the coming years – and policy developments will have to be based on a number of ‘trial and errors’ in the effort to create the measures that will insure the possibility for everybody to take an active part in working life.

Theme 2: Tax-benefit reforms

2.1 Background

The employment guidelines have called upon Member States to review and where appropriate reform the tax and benefit system in order to increase the encouragement of unemployed and inactive people to take up work and to avoid citizens being caught in either the unemployment or the poverty trap. The Danish Tax Reform of 1994 was introduced before the formulation of the employment guidelines while the 1999 Tax Reform took place immediately after the formulation of the first NAP for employment. The recommendations in the guidelines of using reforms of the tax-benefit system as a tool in the employment policies have not been a core element in Danish tax-benefit reforms neither in 1994 nor in 1999. The interesting question is then if the reforms despite this actually have improved the incentives for unemployed and inactive people to take up work.

To look further into these matters this section analyse a number of major social security schemes of particular relevance for the ‘unemployment trap’ and the ‘poverty trap’. The selected schemes include personal taxation, unemployment insurance benefits, social assistance, housing benefits, and parents’ payment for subsidized child-care and early retirement.

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16 Personal taxation is addressed separately in theme 7, why it is not covered systematically here, but personal taxation is of major importance especially in relation to the ‘poverty trap’ where marginal taxation is often the most important component.
2.2 Policy developments

A comprehensive description of the policy developments concerning unemployment benefit and social assistance is available in the Danish inception report. The description in this paragraph focuses especially on areas of relevance for the goals covered by the employment guidelines.

In order to increase the incentives to take up work or participate in education ‘drastic’ changes in the rules for calculation of benefits for special groups of young unemployed were implemented from 1996. Unemployed under 25 years of age without a qualifying education should in order to maintain eligibility for benefits after 6 months of unemployment within the last nine months start an educational program, leading to qualifications, of a minimum length of 1/2 years. During the educational period the benefits would be the same as educational grants for such educations or, if that is not relevant, 1/2 of the maximum unemployment insurance benefits. Young unemployed, well established on the labour market, but without a qualifying education are offered job training, where the benefits are equivalent to maximum unemployment insurance benefits.

The social assistance scheme was changed fundamentally in 1994 and the principles for calculating both ‘personal’ assistance and the ‘housing’ allowance have since been mainly the same. The ‘personal’ assistance is approx. 60 percent of the maximum unemployment insurance benefit for non-providers in relation to children, for providers it is approx. 80 percent.

In order not to create disincentives for groups on the labour market for not entering the voluntary unemployment benefit scheme the social assistance levels have, generally speaking, been curtailed in such a way that they cannot, except for 3 months, be higher than the level for maximum unemployment benefit. The disincentive problems in the choice between membership of an unemployment fund and reliance on social assistance are especially relevant for married couples.

Parallel to the reduction of benefits for young insured unemployed without a qualifying education, similar rate reductions for young social assistance recipients were implemented, because social assistance is an alternative to unemployment insurance.

In order to increase the incentives for families with children and especially for lone parents to take up work the upper income limit for parents’ own payment was increased in the period 1996-2001 from DKK 204,400 to DKK 352,100 DKK or by 72 percent. The tapering of the subsidy is then stretched over a much broader span of income.

A special early retirement scheme for workers with a long work record and membership of an unemployment insurance fund was introduced in 1979. The early retirement can start at the age of 60 years. The benefit is a share of the unemployment insurance benefits. The scheme can be joined from employment or unemployment (if the person is eligible for unemployment insurance benefits).

This early retirement scheme has been changed several times, but the most important changes were from 1999. These changes implied that persons born before July 1 1939 would follow old rules, those born after July 1 1939 the new rules. This date is also decisive for when the new (65 years) or old (67 years) official old-age pension age is valid.

The purpose of the changes was to increase the economic incentives of older workers to stay on the labour market after they reached the age of 60.

The most important changes in the new early retirement scheme are the following:
In the new scheme the benefit period is reduced to 5 years, following the new old-age pension age, which will be 65 years for those who become 60 after July 1 1999.
Access is from the age of 60 years (both from employment and unemployment) if a long insurance record is met (25 years out of 30 in the new scheme against 20 years out of 25 in the old, with exceptions to bridge the transition).

Financing of the scheme was changed too. In order to ease the burden of financing from the state budget a separate and visible contribution was introduced in the new scheme. In the old one there was a common contribution for early retirement and unemployment insurance. In the new scheme it is possible to separate membership of the early retirement scheme and the unemployment insurance scheme, i.e. it is possible to be unemployment insured without being insured for early retirement. The new contributions are combined considerably higher than the old one. If for some reason the person does not participate in early retirement the contributions will be allocated back to the person or a pension scheme for the person. In this way early retirement has become a more clear option according to the new rules.

The benefits are uniform for the whole period, now maximum 91 percent of the maximum unemployment insurance benefits. In the old scheme the maximum was 100 percent of maximum unemployment benefit for the first 2 years, thereafter 82 percent.

If the early retirement is postponed to the age of 62 and the work record for these 2 years is sufficiently long, the benefit will, as a maximum be equal to the maximum unemployment benefit for the period in early retirement. If the early retirement is further postponed a tax free premium is generated in relation to the number of hours worked. The premium is approx. DKK 9,000 per approx. 500 working hours performed after the age of 62; the total premium has a maximum of approx. DKK 105,000 (2000 level), which is offered as a refundable tax credit at the age of 65 years for full time insured.

In order further to increase the economic incentives of staying on the labour market after the age of 60 a reduction of the early retirement benefits according to the pensions and pension rights (not basic public old-age pension) of the recipient was introduced. This implies that there will also be a reduction against pension rights, from which there is no actual payments. In the old scheme there was only a reduction against current payments of pensions. If the early retirement is postponed until the age of 62, there will only be reductions against current payments of pensions.

The new scheme is called ‘flexible early retirement’. It combines the possibility for full time early retirement and part-time early retirement in one scheme. The hours worked will lead to a reduction of the early retirement benefit hour by hour. This is probably more flexible than the old scheme, but the fundamental incentives problems for low-income earners to work part time in the scheme has not been solved.

2.3 Assessment of performance

The reforms of the unemployment benefit scheme as described in the inception report concerning access to the unemployment benefit scheme has been tightened by the increase in work record requirement and the shortening of the benefit period by making the situation of receiving unemployment benefit a temporary one. These are substantial changes, but the uniform benefit period is still long compared with that of most European countries. The benefit period for elderly unemployed has also been shortened, but it can be up to 9 years before the person continues in early retirement.

The changes for special groups of young unemployed have had profound impacts on the incentives for these groups to find a job or an education of their own choice.
The social assistance level is, as already mentioned, in most cases curtailed by the level for maximum unemployment insurance benefits. This is the case for singles. Allocation of social assistance to married couples may, however, result in quite generous benefits. In case of a social event for one (or both) of the spouses social assistance is allocated to both spouses, and tapering against other income (e.g. wage, unemployment benefits and sickness benefits) takes place. A ‘full’ housing allowance is also allocated. This is then tapered and limited according to the rules. This may result in social assistance for a spouse who has no former income but who is willing to participate in the labour market. In this case the overall limit for social assistance is 90 percent of the former income after taxation or, if that is lower, 2 times the maximum unemployment insurance benefit after taxation, even if only one of the spouses has a former income.

The ‘joint’ allocation of social assistance to married couples may also result in ‘topping up’ of low income for a spouse even when ‘topping up’ is not a general principle in the Danish social assistance scheme. These cases, even if they are not very common, may result in very high net replacement rates, also higher than in cases with unemployment insurance benefits.

In most cases the incentives problems in relation to work are minor or of the same magnitude as for unemployment insurance benefits, but in some cases there are very considerable incentives problems for married couples.

The change in parents’ payment for subsidized child-care is caused primarily by the very substantial increase in the upper limit for tapering the subsidy in 1999.

The marginal effect from tapering the subsidy is close to being halved in percentage points but it is effective over an income span of more than DKK 250,000 in 2002 against close to DKK 120,000 in 1996. The maximum total marginal effect has moved considerably up in the income distribution. The change reflects the usual trade off between lower contributions and tapering over a wider income span.

The objective has been to ease the ‘poverty trap’ for low-income earners by pushing the ‘burden’ up in the income distribution.

The objective of the new rules for early retirement is clearly to make this less attractive than before. The contributions are visible and joining the scheme is more of an option than before. There are clear incentives to postpone the early retirement at least to the age of 62, and the tax free premium is a further incentive to postpone after the age of 62 or to give up early retirement even if eligible for the scheme. These are necessary steps to avoid an increasing participation in the scheme.

The new early retirement scheme also became more flexible concerning working part time than the old scheme, which was supplemented with a separate part-time early retirement scheme. The rules are undoubtedly simple in the new scheme compared with the old scheme, but there are still problems with the incentives to work part time for low-income earners. There is often very little gained from working part time compared to being full time on early retirement. This is due to the ‘hour by hour’ reduction and a relatively high benefit, 91 percent of the maximum for unemployment benefit. A more gradual reduction could contribute to a solution within the scheme, but that would make part-time early retirement attractive compared to full-time work at low wages, and that is not a solution. Lowering the benefit level is one solution; another is a kind of Earned Income Tax Credit or ‘job allowance’, which has been discussed in Denmark but up to now rejected.

2.4 Impact evaluation
The tightening of the access conditions to the unemployment insurance scheme has probably reduced the number of recipients somewhat. More important is the shorter duration of the benefit period, which makes the ‘unemployment trap’ of a more temporary character. When benefit rights expire the alternative to work is social assistance, which, generally speaking, will result in lower benefits. The lower benefits make it less likely that this will constitute ‘an unemployment trap’. This is also the case when social assistance is the compensation for unemployment in the first place, e.g. because the unemployed is not insured. There are, however, as mentioned some cases where social assistance to married couples may result in very severe incentives problems, the ‘unemployment trap’ becomes very visible.

The changes in benefit levels for special groups of young unemployed were drastic and the effects easily seen. Most young unemployed in these groups got a job or started an education according to their own choice. The ‘unemployment trap’ suddenly disappeared.

For ‘ordinary’ unemployed the ‘unemployment trap’ was weakened somehow in the period, but there is undoubtedly a potential ‘unemployment trap’ for low-income earners in Denmark. Recent studies show that between 200,000 and 400,000 persons (according to assumptions) in their working ages can be exposed to this problem. The problem has probably decreased somehow during the last 7 or 8 years where the official unemployment rate has decreased very significantly. One mechanism at work is that unemployed who get a job have the possibility of moving up the income ladder (e.g. from 75 percent of the APW to 100 percent or even higher) and in this way climb out of the poverty trap.

It is sometimes argued that participation in active labour market measures will lead the participants back to jobs, why the unemployment trap is not so relevant. This is probably true at least to some extent, but the way back to a job could be helped by better incentives to work. Without such improvements there is also a danger that the stay in active labour market measures might be longer than necessary. It is characteristic that while the average number of registered unemployed have fallen very much, the number of participants in active labour market measures have stayed much more constant.

Even if the ‘unemployment trap’ problem has diminished somewhat, both through reduced net replacement rates and a shorter benefit period, there still needs to be an improvement in the incentives to work for low-income earners.

Another problem created by taxation and tapering of benefits is the ‘poverty trap’ where an increase in income more or less disappears due to taxation and tapering of benefits. The Marginal Effective Tax Rate (METR) is used to measure these effects. The effect also goes the other way; a reduction in income is ‘cushioned’ by a decrease in taxation and increase in benefits. High METR indicate a problem in relation to working more or getting a better-paid job.

The ‘poverty trap’ can be created as an interaction between several schemes and the composition of schemes will be different for different groups of the population. The focus here will be on persons in their working ages and the schemes included are personal taxation, housing benefits and payment for subsidized child-care.


**Table 6.** The Danish working population in 1996 and 2002 in accordance with family types, tapering of benefits, and METR above 66 percent.
The picture is not unambiguous. There are more persons exposed to tapering in 2002 than in 1996, 41,000 more. On the other hand, there are fewer persons exposed to high METR (>66 percent) in 2002 than in 1996, 40,000 fewer. The taxation scheme and the housing benefit scheme (at least above the old progression limit) have lower contributions to the METR in 2002 than in 1996. This is also the case for payment for subsidized child-care but here the lowering is obtained by a very substantial increase of the income range where tapering takes place. There are far more persons (adults) in the couples with children exposed to tapering in 2002 than in 1996, this is especially due to the increased income range for tapering of the direct subsidy to payment by parents for subsidized child-care. The single provider is the family type typically exposed to tapering and high METR. This is the case in both years, but the share exposed to high METR is significantly reduced in 2002.

It is not possible to draw a clear conclusion from the development, but it is probably the case that the ‘poverty trap’ effects on labour supply have eased to some extent from 1996 to 2002. This is based on the assumption that the reduction in the number of persons with high METR counts for more than the increase in the number of persons experiencing tapering of benefits.

The Institute of Local Government Studies has in cooperation with the Ministry of Economic Affairs estimated the impact of important components of the early retirement reform from 1999. It is possible for different standard persons, reflecting the average wage for persons in specific age, gender and educational groups, and based on estimated relations in a representative data set, to calculate the age for early retirement according to the existing scheme and according to a changed scheme. The difference between the two ages constitutes the impact of the changes.

The results show an increase by about 1-1\(\frac{1}{2}\) years for men and 1-2 years for women in the average age for early retirement according to the reformed scheme. These estimates are based on full-time working standard persons. For persons exposed to unemployment the effects are smaller.

It is estimated that the average age for all potential early retirees in the age bracket 60-66 years will increase by 0.6 -0.9 years before early retirement as a result of the reform. This is equivalent to an increase in the labour supply of 20,000-30,000 persons, which is a considerable contribution to solve the problem induced by the demographic development of falling labour market supply.
The conclusions in the area of tax-benefit reform are that even though these reforms were not implemented as a part of Danish employment policies they did work in the direction of increasing incentives to work especially for families with children – and as a gender aspect in the reforms they had a special positive effect for lone parents, i.e. lone mothers. The most significant change took place in the area of early retirement where the specific purpose of the reform – in accordance with the employment guidelines - was to maintain older people in work.

**Theme 3: Lifelong learning**

### 3.1 Background

Improving access to education and training for all has been and still is a major component in active labour market policies and in the employment guidelines. Access of workers to ICT-related training and the prevention of school dropout and training of young people have been in focus. Efforts to increase education and training among other things have taken place under the heading of ‘lifelong learning’

In “A Memorandum of Lifelong Learning” from the European Commission (2000) two equally important aims for lifelong learning are identified: promoting employability and promoting active citizenship. This definition of the aims of lifelong learning lacks an important aspect, which is vital for the concept - that is cultivation. It has been a crucial aim since the beginning of the 70s when the discussions about lifelong learning (education) began that the individual should reach a greater self-knowledge and self-realization through participation in educational activities the whole life span (Lengrand, 1975). Also in the OECD-report from 1996: “Lifelong learning for all”, personal development is mentioned as an independent aim of lifelong learning (OECD, 1996). The focus on cultivation is important as motivation for at least some of the educational and training activities related to active labour market policies.

### 3.2 Policy developments

In relation to the goal of preventing school dropouts there are a number of relevant initiatives. Firstly, a project started in August 1998 called: “The primary school 2000”, which was a partnership among the Ministry of Education, Local Government Denmark and the Danish Union of Teachers. Here were put forward 8 focus points for strengthening the primary school in general and as means to finally implementing the act from 1994. The aim was to start a process where the local governments brought the primary school into focus, and where a continuous evaluation of goals and results was a part of the working process.

Secondly, there have been some minor amendments to the Primary Education Act, where at least two are relevant in this connection: 1) There has been introduced a so-called logbook in the 9th and 10th class which means that every student in co-operation with a teacher must lay down plans for his or her future education. The idea is to make the student aware of his or her own responsibility for learning and to target him or her at the choice of a secondary education. 2) In continuation of this the statement from the previous school about the student’s suitability for further schooling in the upper secondary school has been removed. Earlier, every student had to get this statement from his or her primary school before entering the upper secondary school. Both amendments were made with special reference to make the transition from primary school to secondary education easier in

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17 1) Quality and development – expectations and results. 2) Challenges for the individual student. 3) Knowledge and skills. 4) Educational materials and school buildings. 5) A good beginning – the common foundation. 6) Parents and school. 7) Management – challenge and responsibility. 8) Targeted use of the resources.
order to prevent young people to leave the educational system after they have finished Primary Education.

The number of Danish youth who accomplish an upper secondary education has been increasing during the 1980s and 1990s to a level of 81 percent of each age cohort, cf. table 7.

**Table 7: The proportion of a Danish cohort that accomplishes an upper secondary education. Percent.**

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<tr>
<td>69.5</td>
<td>71.5</td>
<td>72.5</td>
<td>76.5</td>
<td>76.5</td>
<td>75.0</td>
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<td>81.0</td>
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Source: Undervisningsministeriet, 2000b

The objective of the Danish Government is that 95 percent of a cohort should have an upper secondary education – in 1998 it was 81 percent. Against this background one must see the parliamentary resolution from April 1999 about the initiation of a “Development scheme for the future upper secondary educations”. This scheme puts special emphasis on the transitions from primary school to upper secondary education and from upper secondary education to higher education.

The trend is that an increasing part of a cohort accomplishes a higher education. There has been an increase from approximately 25 per cent in the 1980s to 40 per cent in the last half of the 1990s, cf. table 8.

**Table 8: The proportion of a Danish cohort that accomplishes a higher education. Percent.**

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<tr>
<td>25.5</td>
<td>25.5</td>
<td>25.0</td>
<td>24.0</td>
<td>28.0</td>
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<td>39.0</td>
<td>41.5</td>
<td>40.0</td>
<td>40.0</td>
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Source: Undervisningsministeriet, 2000b

The objective of the Danish Government is that 50 percent of a cohort should have a higher education – in 1998 it was 40 percent. On the short- and medium-cycled higher educations (Danish abbreviations: KVU and MVU) there have been some changes in the last couple of years that are important in connection to the goals of the Government. In the KVU-reform from July 1998 13 new and broadly qualifying programmes with a clearer profile as well as national competence replaced about 75 short-cycled educations. In addition to this the possibilities for merits and further education were made easier. The MVU-amendment from July 2000 resulted in the Minister’s possibility to “…give the graduates the right to call themselves profession bachelor”18. This degree is at the same level as the university bachelor degree and is in this way supposed to ease the possibilities for further education in Denmark or abroad.

The budget agreement for the fiscal year 2000 about an adult education reform includes a radical restructuring of the system of adult education. The 11 acts, which are the results of the reform, came into force on January 2001. The objective is to give every adult an opportunity for further education on different levels. When admitting the individual to a given educational course one does not just look at previous qualifying education but also practical experience from the labour market. The importance of an economic aspect in relation to the labour market as well as a democratic aspect in relation to society as a whole is emphasized. There are three main aims in the reform:

18 A quote from the consolidated Act no 905 of 12/9-2000 (our own translation).
1. To offer relevant adult education to all adults from early school leavers to academics.
2. To improve the opportunities for those with the lowest levels of education.
3. To make better use of the resources\textsuperscript{19}.

One of the main ideas behind the adult education reform is to construct a system parallel with the ordinary educational system.

In order to do this the adult education system now has the following levels. There is the preparatory adult education (PAE) that corresponds with the primary school. Here adults can improve their ability to read and write and to use basic mathematical concepts. This will also greatly enhance their opportunities for undergoing further education or training within the framework of the adult education system.

There is the so-called basic adult education (BAE) that corresponds with the upper secondary education. BAE is a framework for education programmes up to the level of vocational education. Before starting a BAE-programme, participants will go through a competence assessment where an assessment of previous courses and work experience is made.

The adult education system comprises three advanced education levels:
1. Advanced adult education (AAE), which corresponds to the level of a short-cycled education programme within the ordinary educational system.
2. Diploma level education, which corresponds to a medium-cycled higher education programme within the ordinary educational system.
3. Master level education, which corresponds to the level of a long higher education programme within the ordinary educational system.

The educations at the lower levels are of no charge to the students, whereas there is a participant’s fee at the higher levels. There is a possibility of receiving economic support during all courses through state grants.

3.3 Assessment of performance

In order to assess the performance concerning formal and informal learning an analysis based on the Danish level of living conditions survey 2000 has been conducted. In this survey the respondents have been asked whether they have participated in education to improve their qualifications on the labour market during the last year and whether they have participated in any other kind of education. These two questions are used to measure the formal and non-formal learning respectively. Formal learning takes place in educational institutions and lead to recognized qualifications. The non-formal learning can take place in evening classes, the folk high school and the like. The crucial line between the formal and non-formal learning is thus whether education takes place in formal institutions that leads to recognized qualifications or whether it takes place in institutions where the participants do not receive formal recognition of the attained qualifications. There will be an overlap between the two concepts and the two questions, but it is believed that the first question aims at formal learning to a greater extent than the second question. In other words it is productive to use these questions as indicators of the two forms of learning despite a certain divergence between concept and indicator.

The informal learning is measured as a sum of several different activities that can be characterized as informal learning – e.g. sports activities, voluntary work, visits to a theatre, reading a newspaper.

\textsuperscript{19} A quote from: The Ministry of Labour/The Ministry of Education: a report to the parliament about the adult education work, April 2001 (our own translation).
etc. Informal learning can take place in the meeting of other people, by participation in cultural activities and in other settings that can widen one’s horizon.

The results seem to support the strategy set up by the Government namely that formal educational qualifications are important by themselves but also because they influence people’s participation in informal education positively. The analysis shows that those who already have an upper secondary education or a vocational education take part in lifelong learning to a far greater extent than those who are less educated or do not have a vocational education.

Because of their educational background the unemployed participate less in formal learning and informal learning than for example the large group of wage earners.

People in rural districts are the last group to be accentuated in connection to the fulfilment of the objective about “lifelong learning for all”. The geographical dimension is another important aspect. People living in rural areas take less part in education, than do people living in the more populated areas of the country.

These results point to the fact that danger of educational polarization exists, which goes right against the intentions of diffusion of lifelong learning.

The group of people with only a few years of education are especially interesting in connection to lifelong learning as mentioned above. In the new adult education reform the Government tries to target this group in different ways.

Firstly, there are the economic possibilities. The early school-leavers can get economic support during their participation in preparatory adult education (PAE) or basic adult education (BAE). For full-time participation the support is DKK 2,940 per week (2001 level), and the rate is adjusted once a year. This amount has not been changed with the new reform. What has been changed is the definition of the early school-leavers as to include people with 10th grade in the category. This means that more people can get the favourable possibilities of support. On the other hand activities that do not have a strictly vocational or educational purpose do not make the participants eligible for economic support anymore. Formerly it was possible to get support to hobby-like activities that could be a lever for further training. In a lifelong learning perspective this is a reduction in the possibilities for the early school-leavers.

Secondly, the reform makes it easier to transfer former working experience and educational merits into recognized qualifications. It means that if one wants to be a skilled worker the length and content of the BAE-programme depends on an overall assessment of your previous experience. This more individual and general assessment includes non-formal and informal learning aspects and makes it more feasible for the early school-leavers to take up education. The meaning is that every student gets an educational plan worked out individually on the basis of his or her previous experiences. And in general the assessment is made from a general impression of the students. In order to improve the possibilities to take up this kind of education the participants no longer have to have an agreement with an enterprise in order to begin an education.

Thirdly, the reform opens the possibility of education on the workplace to a greater extent than before. This makes it easier for the early school-leavers to overcome the barrier of further education. Education does not necessarily have to take place in a classroom.

The objective of employability has the greatest attention in the adult education reform. The argument seems to be that active citizenship and cultivation will automatically follow. To some extent this is likely to be the case because employment is such an important factor in society. But to some
extent there can also be a trade-off between employability and cultivation. If education is always a means to improve employability the desire to learn and the ability of learning that are probably not present for the early school-leavers will not be developed. The PAE consists of general educational courses and are in that sense cultivating, but the perspective is still employability.

3.4 Impact evaluation

The concept of lifelong learning and the goal of access to education and training for all imply a focus on three different kinds of learning: formal, non-formal and informal. Formal learning is the traditional learning in educational institutions, non-formal learning can take place at work, in evening classes, etc., and informal learning is the learning of everyday life. We have identified four objectives for the improvement of access to education and training:

1) Lifelong learning for all. 2) Employability. 3) Active citizenship. 4) Cultivation. We measured lifelong learning in Denmark for different groups and assessed the new adult education reform in that perspective. The main finding was that the early school-leavers participate to a much smaller extent than people with a higher level of education in all three kinds of learning. With the adult education reform the government tries to avoid an increasing educational polarization – perhaps leading to increasing social polarization – by different measures. The group of people who are eligible for economic support for preparatory adult education is expanded. The reform impels the early school-leavers to general or vocational education by crediting former work experiences and courses as part of a basic adult education-programme. The objective of employability has the main priority in the reform.

The political goals of preventing school dropouts and increasing the number of persons who accomplish upper secondary education and higher education have been targeted by the reforms. There has been a substantial improvement in the educational level of Danish youth but there is room for improvement if the Government goals are to be met.

All in all Danish policy in this area has been in accordance with the employment guidelines focus on lifelong learning and the prevention of early school leaving.

Theme 4: Social inclusion

4.1 Background

The employment guidelines concerning disadvantaged people focus on the introduction and development of appropriate forms of preventive and active labour market policies notably for disabled, migrants and ethnic minorities.

Even though the registered unemployment rate in Denmark has decreased from 13 percent of the labour force in 1994 to around 5 percent today there is still a considerable group in the working age, receiving transfer incomes, such as cash benefit, long-term sick benefit and anticipatory pension. In this group we find the disadvantaged people. A precise definition of the group is difficult. In the following they will be defined as long-term cash benefit recipients, long-term sick people, unemployed disabled people and unemployed ethnic minorities from third party countries.

4.2 Policy developments

The measures to promote social inclusion are diversified and follow several tracks.
The active line concerning disadvantaged people was strengthening with The Act On An Active Social Policy from July 1998. The Act entailed that young people under the age of 30, who have other problems than unemployment were entitled to an activation offer not later than at the end of a continuous period of 13 weeks on cash benefit. The earlier Act on Local Activation only gave this kind of offer to young people under the age of 25 for whom unemployment was the only reason for receiving social assistance.

The activation of persons over the age of 30 was not changed. As in the 1994 Act of Local Activation, they shall be given activation offers no later than after the end of a continuous period of 12 months on cash benefits. The municipal authority shall determine the weekly number of hours offered.

A key measure in promoting social inclusion has been termed the inclusive labour market, i.e. a labour market open for everybody. The main aim has been to prevent exclusion and maintain people in employment. Persons who become sick or undergo crises should not be excluded from the labour market. And persons who have lost their affiliation to the labour market or never have had one should be brought (back) into ordinary employment.

The measurement includes 2 strategies, which complement each other:

One strategy has been intensive awareness-arising initiatives as "Our Common Concern - the social responsibility of the corporate sector" launched in 1994, concerning the issue of the inclusive labour market in relation to the social partners, authorities and enterprises. The purpose has been for the public sector, i.e. State and municipalities, to work together with the corporate sector and to change the attitude towards disadvantaged people.

Parallel to this, the social partners have incorporated social chapters in the collective agreements which have made it possible to employ persons with reduced capacity for work on special terms, e.g. part-time work or work at minimum wage. The social partners in the public and the private labour market have followed up on this initiative to varying degrees.

The other strategy is, through legislation, to provide and make it easier and less expensive to employ disadvantaged people. The Act On An Active Social Policy made it possible to employ disadvantaged people in a flex job, creating the possibility for people with reduced work capacity to take up a job on flexible terms concerning working time and wages. If the work capacity is only 50 percent, then the municipality can subsidy 50 percent up to a minimum wage.

Other legislative initiatives to promote a labour market open to all are:

The Danish Parliament has passed an act on local partnerships for social cohesion – called local coordination committees – which came into force 1st January 1999. The Act entails that a municipality or a number of municipalities together can establish local committees for preventive labour market measures. Social partners on the local level, representatives from the municipality or municipalities and local NGOs will take part in the work in the committee.

Since 1997 the municipalities are obliged to follow up on cases on long-term sickness every 8th week to prevent exclusion from the labour market. If possible, they can cooperate with the sick person's employer about returning to the workplace on part time or in another job.

The anticipatory pension reform, which will come into force 2003, will focus on the work capacity of potential recipients of anticipatory pension. The reform entails that people with a reduced work
capacity, who have participated in measures such as rehabilitation and/or activation, and still can obtain an income, will be offered a flex-job instead of a pension.

The initiatives concerning the corporate sector and the legislation towards an inclusive labour market also include persons with a limited capacity for work caused by disability.

Other measures in relation to disabled persons have been strengthened with a view to obtaining a higher degree of self-support. Two pilot schemes concerning personal assistance to disabled persons in employment and education have been made permanent schemes.

Initiatives have been taken to enhance disabled persons' participation in vocational training in the form of:

- Improved physical access to vocational training centres
- Establishment of services providing aids to disabled persons
- Establishment of services to word blind persons
- Dissemination of information
- Development of teaching materials
- Pilot schemes with teaching of groups of disabled persons

The 1996 Act of Anti-discrimination prohibits any direct or indirect discrimination on the labour market on the basis of race, colour of skin, religion, political belief, sexual orientation or national, social or ethnic origin.

The 1999 Act of Integration emphasized integration on the labour market of newly arrived refugees and immigrants, by offering activation, education in Danish language, knowledge about Danish society and an individual action plan. Earlier, only refugees could join an integration programme, but as of January 1st, 1999 also other immigrants have to join the programme. The integration period was changed from 18 months to 3 years. The refugees or immigrants are obliged to participate in the integration programme laid down in the individual action plan.

At the same time education in Danish language for all grown up foreigners have been strengthened to improve the participation on the labour market and labour market activation.

Initiative has been taken to establish a validation body on education, which shall validate and register immigrants' certificates. It is estimated that immigrants have competences and qualifications, which are not used to day on the labour market.

4.3 Assessment of performance

Since 1997 the budget resources for promoting the labour market participation for the disadvantaged groups have increased.

One of the corner stones in labour market policy for the disadvantaged groups is flex job. An increase in the number of flex job is supposed to contribute to full fill the target in NAP 1998, with 30 – 40,000 job on special terms. As seen in table 9, the resources allocated to flex job have increased by 262 percent from 1997 to 2000, and are supposed to increase by another 91 percent from 2000 to 2002, according to Budget 2001.

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Table 9. Account and budget for flex job (m. DKK) (PL 2001).

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<tbody>
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<td>Account</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Flex job</td>
<td>212,4</td>
<td>307,7</td>
<td>575,8</td>
<td>883,9</td>
<td>1,221,7</td>
<td>1,319,7*</td>
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<tr>
<td>Sheltered jobs</td>
<td>75,5</td>
<td>96,6</td>
<td>87,9</td>
<td>91,8</td>
<td>106,9</td>
<td></td>
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</table>


*From 2002 the state only finances 65 percent of the municipalities expenditure to flex job.

The funds for the different initiatives, like the inclusive labour market, personal assistance for disabled persons, public funds and two centres, one for participation on special term and one for information about foreigner education have risen by 161 percent from 1997 to 2001.

Table 10. Budget resources allocated for promoting the labour market participation for disadvantaged people (m. DKK).

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<tr>
<td>The open labour market</td>
<td>35,9</td>
<td>53,0</td>
<td>62,5</td>
<td>121,7</td>
<td>114,3</td>
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<td>Centre of Employment on Special Terms</td>
<td>7,4</td>
<td>8,6</td>
<td>10,4</td>
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<td>13,0</td>
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<td>Personal assistance for disabled persons</td>
<td>45,8</td>
<td>46,2</td>
<td>61,5</td>
<td>72,1</td>
<td>84,4</td>
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<tr>
<td>Centre for International Cooperation and Mobility in Education and Training</td>
<td></td>
<td></td>
<td>5,5</td>
<td>13,3</td>
<td></td>
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<tr>
<td>Different public funds for development</td>
<td>38,5</td>
<td>46,1</td>
<td>71,9</td>
<td>97,1</td>
<td>78,6</td>
</tr>
<tr>
<td>Total</td>
<td>127,6</td>
<td>153,9</td>
<td>206</td>
<td>299,4</td>
<td>333,6</td>
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Act of integration* 417,3 1.852,3 2.496,0


*Act of Integration replaces the earlier integration programme, which with the new act expands from 18 months to 3 years as well as it includes newly arrived immigrants. Before 1999 the programme only included refugees.

The budget resources allocated to extend the labour market for disadvantaged groups reflect a greater effort to integrate these groups on the labour market. At the same time this effort makes a contribution to expand labour supply.

Disabled persons on the labour market are not registered in Denmark. A research report 21 from 1997 shows that there are between 200,000 and 300,000 disabled persons on the labour market according to their own information.

If possible, disabled persons work on ordinary terms on the labour market. Only if it is necessary, they will be supported by rehabilitation, flex job or sheltered job.

Disabled persons, who cannot work on ordinary terms, are one of the target groups to be integrated through the inclusive labour market policy.

Long-term cash benefit recipients are defined as persons, who have received cash benefits in 10-12 months in one year.

In spite of the decrease in unemployment during the 1990s and the increase in employment, the number of long-term recipients of social assistance has increased. This corresponds by and large to the increase in the number of immigrants receiving long-term cash benefit.

A majority of long-term recipients of social assistance have other problems than unemployment and are not available for ordinary work. It is estimated that approximately 70 percent of these have other problems than unemployment\textsuperscript{22}. From 1994 to 1999 the number of long-term recipients has increased from 38 percent of all recipients in 1994 to 47 percent in 1999.

At the same time, there have been changes in the composition of this group.

The immigrants have become more numerous during the period. While the immigrants accounted for 24 percent of the total number in 1994, they accounted for 34 percent in 1999. The number of immigrants in the group of long-term recipients has increased by 47 percent since 1994 while the number of ethnic Danes has declined by 8 percent\textsuperscript{23}.

The active measure has resulted in an increase of persons in activation and rehabilitation. Activation increased 272 percent from 1994 to 1999, while the increase in rehabilitation was 72 percent. This meant that the number of persons, who received passive support, decreased by 37 percent.

Even though the fraction of persons, who receive long-term cash benefit have not been reduced, there have been exchanging in the persons, receiving cash benefit. About 30,000 persons leave the group every year, which is an exchange of about 1/4 of the group.

It is characteristic that there are more women than men and more with children among the receivers of long-term cash benefits than among the short-term receivers of social assistance. Especially for women children can be seen as a barrier for labour market participation. Smaller children can entail that the job-seeking is limited to a narrow labour market as well as it could be a problem to have the children taken care of\textsuperscript{24}.

The long-term receivers have to a lesser extent than the short-term receivers and the rest of the labour force a vocational education.

That the number of long-term receivers of social assistance have not been reduced parallel to the decrease in the unemployment can, for some part of it, be explained by a reduction in new entitlements in anticipatory pensions. The reduction in new entitlements is connected with changes in the process of visitation and the financial rules. Only when the work capacity is insignificant, one is entitled to an anticipatory pension.

In the period between 1996 and the first quarter of 2001 there has been an increase in flex job by 419 percent mainly caused by the inclusive labour market policy and the change in the process of visitation and the financial rules for anticipatory pensions. In the same period there has been an increase in sheltered job by 46 percent.

Denmark has a total number of 5,330 m. inhabitants (1\textsuperscript{st} January 2000). 296,924 of these are immigrants and 81,238 are descendants to immigrants corresponding with 7 percent of the population.

\textsuperscript{22} Danmarks nationale handlingsplan til bekæmpelse af fattigdom og social udstødelse (NAPincl) 2001/2003
About one fourth comes from the EU and other western countries\textsuperscript{25}. From other European countries such as Poland, Ex. Yugoslavia and Turkey comes 25 percent. From Asia comes 29 percent and only 9 percent comes from Africa.\textsuperscript{26}

Inclusion of immigrants is mainly a problem for immigrants and descendants from other countries than the EU and other western countries. The participation rate for persons from non-western countries has been reduced since 1994. Approximately half of the immigrants and descendants from a non-western country in the working age between 16 and 66 years are active on the labour market compared to 79 percent in the rest of the population. The participation rate for women is lower than for men. For women it means that 57 percent of immigrant women between 16 and 66 years are not included in the labour force, while it only goes for 25 percent of the ethnic Danes. It is quite obvious that social inclusion of immigrants is a problem and a special a problem for immigrant women.

The participation rate for descendants is higher than for the first generation of immigrants and their unemployment rate is lower, 10.6 percent for descendants compared to 22.9 percent for immigrants. But even for the descendants, the unemployment rate is almost twice as high as for ethnic Danes.

Research shows that it took longer time to be integrated on the labour market in the end of the 1990s than it took in the beginning of the 1970s and 1980s.\textsuperscript{27}

As mentioned earlier, the number of immigrants receiving long-term social assistance has increased and one third of the receivers are now immigrants. There might be several explanations of the low participation rate and high unemployment rate.

One could be that many immigrants are unskilled, and that the unskilled job, which many immigrants could fulfil earlier, disappears. Another is that the demand for qualifications on the labour market increases and parallel to this it is important to speak and read Danish at a high level, which is a problem for many in this group. And a third is that the economic incentives to join the labour market for some immigrants are low compared to receiving unemployment pay or social assistance, especially for women with children.

4.4 Impact evaluation

The impact of the European Employment Strategy in Denmark, as it was concretised in The National Action Plan for Employment from 1998, was in some of the target aimed at social inclusion.

Since 1994 there have been efforts to strengthen the private and public sectors’ social responsibility. This has been done by awareness arising initiative and establishing of social partnership at many levels in society.

The cooperation between public authorities and enterprises have been based both on voluntary participation in national and regional network and organised by legislation. According to legislation each municipality is obliged to establish local partnerships called local committees for preventive labour market measures. In 2000 there were 147 local committees of which 55 covered more than one local authority. The committees have contributed to the employment goals by making the vision about the inclusive labour market visible among the local enterprises. The committees have contrib-

\textsuperscript{25} Other western countries include Iceland, Norway, Switzerland, North America, Australia and New Zealand.

\textsuperscript{26} Arbejdsmarked, Indvandrere, efterkommere og øvriges tilknytning til arbejdsmarkedet 1. januar 2000, 2001:22, Statistic Denmark and Statistic Bank.

\textsuperscript{27} Integration i Danmark omkring årtusindskiftet. Rockwool Fondens Forskningsenhed, Århus, 2000
uted to a better cooperation between the local actors and the dialog between the municipality and committees have been improved.\textsuperscript{28}

The reform of the anticipatory pension has pasted the Government, and the Act will come into force on January 1, 2003. The result of the reform might be a reduction in the number of persons receiving anticipatory pensions, as far as it is expected that some of the future receivers will have a flex job instead of a pension. It is estimated that about 4,000 persons in 2005 will have a flex job instead of a pension.\textsuperscript{29}

The development from 1998 to 2001 shows that there has been a reduction in the number of persons receiving anticipatory pension by 11,000 persons. The reduction is caused by a decrease in new entitlement to pension and can be explained by changes in the process of visitation and the financial rules. These changes has been made to reduce the number of persons by forcing the municipality to activate and rehabilitate persons in danger of leaving the labour market and with the purpose of integrating persons with reduced work capacity and disabled persons on the labour market.

The Act On An Active Social Policy from 1998 introduced a new type of flex job with public support and improved the possibility of permanent employment for people with reduced work capacity. Along with that, the social chapters in the collective agreements on the labour market have been accepted from most of the social partners.

The social inclusion has been improved by the extension of flex jobs, which have increased from 2,087 jobs in 1996 to 10,828 jobs in the first quarter of 2001. At the same time the sheltered jobs have increased to 5,428 in 2001.

The number of jobs related to the social chapters has according to a survey among private and public enterprises raised to a little more than 3,500 in 1998.\textsuperscript{30}

All together the approximate number of jobs on special terms were 19,800 in the beginning of 2001, which is close to the target of 30-40,000 jobs on special terms in 2005 according to NAP 1998.

The active line has been strengthening first with The Act On Local Activation, which came into force as of January 1, 1994 and later with The Act On An Active Social Policy as of January 1, 1998. For the disadvantaged groups activation has risen from 5,243 persons in 1994 to 19,484 persons in 1999 – an increase of 272 percent. At the same time rehabilitation has increased from 13,833 persons in 1994 to 23,740 persons in 1999 or 72 percent.

Even though the unemployment rate declined the number of people receiving long-term social assistance has risen from 1998 to 1999. The rise in the number of people receiving long-term benefit can be connected with the decline in the number of people, who are entitled to an anticipatory pension but it also indicates that activation of this group could be more effective. Evaluations of the active policy\textsuperscript{31} indicate that it is difficult to activate the disadvantaged group. Social assistance recipients with other problems than unemployment have, according to the municipalities, difficulties in participating in the existing activation offers and the effects of the activation are limited for this group.

\textsuperscript{29} Forslag til Lov om ændring af lov om social pension og andre love, Lovforslag nr. L 137, Folketinget 2000-01
\textsuperscript{30} Virksomhedernes sociale engagement. Årbog 1999. Socialforskningsinstituttet. 99:16
\textsuperscript{31} Aktivering af kontanthjælpsmodtagere. En evaluering af Lov om kommunal aktivering. Hanne Weise og Susanne Brogaard. SFI. 97:11
Another evaluation\textsuperscript{32} of The Act On An Active Social Policy concludes that the aims in the activation schemes for the disadvantaged groups are unclear and that the schemes seldom are followed up, i.e. the effect of the project was not investigated and the contents seldom adjusted.

Activation has contributed to a more flexible labour market, where the supply of qualifications of the unemployed corresponds with the demands from the enterprises. It is estimated that 3-4 percentage points have reduced the structural level of unemployment.\textsuperscript{33} The activation line has so far been a success as long as it coped with the ‘strong’ unemployed persons, but it is questionable whether the same active measures also can cope with the disadvantaged groups.

One of the greatest challenges for the Danish Welfare State in the future will be to integrate immigrants (and refugees). Several committees, expert groups and think tanks have emphasized that the greatest problems concerning integration of immigrants on the labour market are the immigrants’ lack of education/qualification, another problem is, that if they have an education, it is seldom accepted and finally, their Danish is not good enough.

In the long run the target is that immigrants and descendants shall obtain the same participation on the labour market as the ethnic Danes and obtain the same level of unemployment. In NAP 2001 the target is to raise the participation rate from 57 percent in 2001 to 65 percent in 2010.

The attention on integration of immigrants has improved in recent years. It is agreed that the best way to integrate immigrants goes through inclusion on the labour market. Several initiatives on many levels have been taken to integrate the immigrants on the labour market and thereby reduce their high unemployment rate.

First of all, The Act of Integration from 1999, where the programme of integration was extended from 18 months to 3 years for newly arrived refugees and immigrants. The Act, which among other things emphasizes activation and education in the Danish language, has been evaluated. The evaluation shows that there have been problems with incoherence between activation and language education and that only 35 percent of the immigrants, who should have been activated, actually were activated. At the same time, the average absence from language education was 22 percent\textsuperscript{34}.

Another initiative is easier access to education in the Danish language for all immigrants and special funds have been established to offer education in the Danish language for unemployed immigrants.

Several projects for immigrants have taken place, e.g. The Icebreaker Scheme for ethnic minorities, where enterprises, which have no experience in employment of ethnic minorities, can have half of the wage up to DKK 11,000 paid by public employment services for up to 6 months. A survey concerning 180 immigrants shows that 71 percent are still employed after 6 months and 5 percent have started an education.

Also the existing measures of strengthening social inclusion, such as the campaign for promotion of social responsibility of enterprises, the inclusive labour market policy and activation schemes, are increasingly focusing on integration of immigrants on the labour market.

In a longer perspective, there has been a decrease in the total number of persons receiving transfer income from 1994 to 2000 by 11 percent. In the same period the number of individuals, who are not temporarily in the labour force, has increased by 12 percent caused primarily by an extension in

\begin{footnotesize}
\begin{enumerate}
\item Metoder i aktivering og forrevalidering - spørgeundersøgelse. Torben Berg Sørensen m.fl. Århus 2000
\item Effekter af aktiveringsindsatsen, Ministry of Labour, Copenhagen, 2000
\item Rapport fra arbejdsgruppen om aktivering og fravær fra danskundervisningen. Indenrigsministeriet, marts 2001.
\end{enumerate}
\end{footnotesize}
activation and rehabilitation. Whereas individuals with permanent transfer income (early retire-ment) increased from 1994 to 1998 followed by a decrease from 1998 to 2000.

Looking at the policy developments in this area, policies have been developed in order to deal with employment problems for the disadvantaged groups mentioned in the employment guidelines. So far it is difficult to assess the effectiveness of these policies as they have only recently been implemented. One obvious conclusion is that it is hard and takes quite some time to get positive results in the area of integrating people with a disadvantage in the labour market.

**PILLAR II: ENTREPRENEURSHIP AND JOB CREATION**

**Theme 5: Administrative simplification and self-employment**

**5.1 Background**

Employment guidelines in this area are directed towards the possibilities of increasing entrepren-eurial awareness and encouraging self-employment.

In the 80s and most of the 90s the policy of entrepreneurship primarily was aimed at motivating and supporting individuals in establishing new businesses. A number of initiatives such as the enterprise allowance scheme for the unemployed intended to turn the unemployed into self-employed individuals. The experience with these programmes has not been too brilliant and only a few of the new enterprises have survived after the period of public support ended.

**5.2 Policy developments**

As stated in The National Action Plans for Employment the policy in this area has been changed from a traditional strategy with support to the individual entrepreneur to a policy that aims at creating better framework conditions for small enterprises and new entrepreneurs.

The administrative demands constitute a considerable burden for small enterprises and are one of the reasons why many hesitate establishing an enterprise. Already from 1998 measures have been launched in order to assess and reduce these burdens. These measures include a hotline informing of the public rules, offers and systems of business service for administering wages that have been developed by public authorities and made accessible for service enterprises that assist small business- es. Another measure consists in free assistance by a consulter (from the state, county and municipal financed Technological Information Centre) to small enterprises in order to organise their admini-stration in the most suitable way.

A checklist has been developed to ensure that new legislation is actually necessary, and that regulatory alternatives have been considered. A test panel or focus panel is used to carry out in-depth analyses of the consequences of laws and regulations for the administration of businesses. Thus, businesses assess what administrative consequences they expect from the proposed legislation. Furthermore, a system is being developed so that businesses only need to report information to public authorities once, and they only need to consult the homepage www.indberetning.dk (indberetning meaning “report”) to find all necessary forms. Extended use of ICT in the communication between companies and authorities is being prepared.

A business service extends the existing possibilities as regards the use of external service providers, so that businesses can hand over all or a large proportion of their administrative responsibilities. The business service is offered under market conditions, so that the businesses pay for the services
they receive. It is important that costs of the businesses are commensurate with the reduction in their administrative workload when they use the service. In order to help set up the market, the Government decided that a grant may be given to clients’ business investment in the necessary computer equipment.

Earlier, the dominance of a wage-earner-culture was much discussed while not much action was taken to turn this perceived development. Even today most reports conclude that although these employees are active and show initiative, few of them consider starting up as self-employed (Mandag Morgen 2000). In a recent international comparison Denmark turns out to be number 47 out of 49 countries in terms of establishing new enterprises (Institute of Management Development, 2001).

Following White Paper 1301 of the Department of Education (Betænkning 1301, 1995), a two-year programme was launched in 1996 to further the entrepreneurial culture in education, both by modifying the content of educations generally so that they should encompass more entrepreneurial elements, and by establishing education modules specifically aimed at coming entrepreneurs. A number of higher educational institutions, especially business universities and colleges of education, made their own reports, and a “package of entrepreneurship” was produced for the public school.

Newer initiatives for furthering a culture of entrepreneurship are the incubator initiative (innovationsmiljøer) that is made in order to produce innovative entrepreneurs with unique competences, easier access to capital for small and medium size enterprises so that they are able to establish and develop, and free counselling before start of an enterprise which among other things shall contribute to a better survival of the new enterprises. Special concern is taken both in terms of throwing light on the question why so few women start their own enterprises, and in terms of supporting female entrepreneurs.

The incubator initiative is built around science parks, universities and other higher educational institutions. It shall establish cooperation between enterprises, researchers and other experts and thus create breeding ground for commercial use of research results and innovative projects.

Free counselling before start of an enterprise was part of the entrepreneur package (law) of 1997 that replaced the earlier entrepreneur benefit for unemployed persons. The publication “Gratis rådgivning (Free counselling) 1997-98” (Erhvervsfremme Styrelsen 1999a) mentions that the percentage of users of counselling who were unemployed accordingly had gone down from 67 percent in 1997 to 25 percent in 1998. The National Action Plans for Employment mention that 6,000 persons received such counselling in 1999, of whom 37 percent were women, whereas 7,700 persons received entrepreneur counselling in 2000.

5.3 Assessment of performance

The National Action Plan for Employment 2000 claims that according to international standards Denmark has made the greatest progress with regard to making an evaluation of the administrative consequences for the enterprises of rules and regulations. The evaluations are carried out yearly in the publication “business and regulation” where the administrative consequences of legislation are evaluated with different methods including test panels of enterprises and focus panels of enterprises.

The Ministry of Economics and Business Affairs developed a new method to assess the regulatory burdens by way of accounts of burdens. The accounts of burdens are based on annual interviews with samples of up to 1,000 companies. Initial results indicate that the regulatory burdens have stagnated from 1999 to 2000 having been reduced for small businesses and increased for big businesses. The analyses further show that businesses using the Internet for administrative work have fewer burdens. Besides the assessment of the total administrative burdens, the project also gives
valuable knowledge on the factors determining the level of administrative burdens (size, line of business, main regulatory fields, use of ICT, outsourcing, etc.). This knowledge is to be used in developing new initiatives to fight administrative burdens.

The incubator initiative has been evaluated by PLS Consult in cooperation with the British company Segal Quince Wicksteed in 2000 (Erhvervsfremme Styrelsen 2000). The main conclusion of this evaluation is that the incubator initiative, despite a hesitant beginning, has contributed to the establishment of new innovative companies and to the commercialisation of innovative project ideas. During the period from 1998 to 1999 the incubators have contributed to the establishment of 172 innovative companies founded on new, knowledge-based project ideas. Approximately 100 of these project ideas are patented. In an international context this number of new established innovative enterprises is considered to be high.

The projects are the result of 2,631 requests from potential entrepreneurs, which have resulted in initiation of 549 feasibility studies and 176 pre-seed capital projects during the first two years of the initiative. The incubators have invested DKK 125 m. in pre-seed capital projects, DKK 31 m. in 1998 and DKK 94 m. in 1999. And by the time of evaluation almost 10 percent of the initiated pre-seed capital projects continued with other means of funding. More projects are, however, on their way. According to the PLS-evaluation, it is expected that 35 percent of the projects will be commercialised within the next six months, and 54 percent of the entrepreneurs estimate that they need venture capital to a large extent at present or in the future. Only two projects have started returning capital, and a total of DKK 3,35 m. have been returned by the time of evaluation. But the evaluators state that during the first two or three years no significant repayment can be expected, and the repayment that is eventually obtained cannot be assessed until five years after start.

On the other hand, it turns out that the incubators were most needed in relation to research based projects, as 60 percent of these projects according to the entrepreneurs would not have been realised without the intervention of the incubators. This is also the case for 47 percent of the other projects. The entrepreneurs’ primary motivation for seeking support of the incubators is the need of capital, especially as support to feasibility studies and pre-seed capital projects. The entrepreneurs, however, are also motivated by the possibility of receiving competent advice and sparring, both technical advice and advice concerning the start-up of a new enterprise and business economics. The incubators fill out a function as the most risk-taking source of finance in the financial system, but many entrepreneurs have a need of financing that exceeds the DKK 750,000 which the incubators have. They need more advice related to financing and network relations to outside sources of capital to provide the next 1 to 2 m. DKK.

The publication “Formidling mellem private investorer (Business Angels) og kapitalsøgende innovative virksomheder (Mediating between business angels and innovative enterprises needing capital)” (Erhvervsfremme Styrelsen, 2001a), analyses the opportunities for matchmaking between business angels and innovative small enterprises. Business angels can be an important source of finance for enterprises in their early stages but at present it is difficult for business angels and entrepreneurs to find each other. In other countries business angels’ networks provide matchmaking for business angels and entrepreneurs who are seeking capital. Important international experiences with such networks and meeting places exist, and Deloitte & Touche has made a survey for the Danish Agency for Trade and Industry on how business angels and enterprises in Denmark would prefer meeting places and networks to be organised.

The evaluation (Erhvervsfremme Styrelsen, 2000) recommends that the focus of the initiative should be directed more towards research-oriented projects if commercialisation of university research is wanted, and the number of research-oriented projects should be increased. The incubators should strengthen their effort for procuring capital for the continuation of projects to a stage where
venture capital may be the question, and strengthen their advisory services related to financing. Thus the restrictive demarcation of the target group should be maintained so that the incubator initiative continues to be targeted at the establishment of new companies, and aiming at commercialising new, knowledge-based project ideas. Finally, as a regulatory tool for the Danish Agency for Trade and Industry performance contracts for the incubators are proposed.

The report "Iværksættere (entrepreneurs) i 1990’erne" (Erhvervsfremme Styrelsen, 1999b) analyses the effect of the free start-up counselling programme, the so-called “klippekort” of the Danish Agency for Trade and Industry. It shows that the entrepreneurs, who have used this programme, experienced a significant rise in survival compared to the general survival rate. After four years entrepreneurs receiving consultancy had a survival rate of 62 percent compared to a survival rate of 40 percent for entrepreneurs who did not receive consultancy. The report emphasises four factors of particular importance for the survival of the new business. The four factors are knowledge of the sector, age, education and previous business experience.

What has been the effect of these efforts to strengthen entrepreneurial culture? Kim Klyver from the Research Centre of Small Business in Kolding has tried to assess that (Klyver, 2000). One difficulty is that we have no sure knowledge of entrepreneurial culture in earlier times. The number of self-employed persons has declined during decades, and that has caused public opinion to conclude that we have a wage-earner culture that is an impediment to economic development and employment. This is often asserted in the debate, but one also finds the opposite opinion that the entrepreneurship and innovative culture is strong. Through a closer scrutiny of the development in the number of self-employed Klyver finds that the decline is concentrated in the areas of farming and fishing, so that it must be understood as a structural development in these trades rather than something that concerns entrepreneurial culture as such.

The Research Centre of Small Business in Kolding, however, participates in an international project called Global Entrepreneurship Monitor (GEM) together with researchers from 20 other countries. And a common definition of entrepreneurial activity is used. In GEM this activity is defined not only to include entrepreneurs in a strict sense, but also the so-called intrapreneur, i.e. the person who joins her or his employer in starting up a new enterprise as a continuation of the old job activity. It turns out that the number of intrapreneurs is 1/3 of the total number of entrepreneurs in Denmark, which is more than in most other countries. Klyver explains this by the well-known fact that the distance between employer and employee is smaller in Denmark than in most other countries and the amount of autonomy in the job is greater.

Female entrepreneurs are not common, and therefore the question is whether there are special impediments against women who want to establish an enterprise of their own. The Danish Agency for Trade and Industry has made an analysis of the reasons of the skewed gender distribution in the use of the services for entrepreneurs (Erhvervsfremme Styrelsen, 2001b). This report states that female entrepreneurs cannot be considered a homogenous group. They have a number of problems that are often the same as the men have. The greatest barrier for both men and women is the administrative troubles that the establishment of own business entails. But on the other hand, these troubles contain jobs for the women, accounts and auditing being the most common type of activity for female entrepreneurs.

Women often prefer work in service and care and are, therefore, more inclined to establish in these fields. But in Denmark public authorities produce service and care, and women working in this area will have the opportunity of making a career in the public system. The service and care system employs a great number of women without giving them the opportunity of establishing their own enterprise. Another reason for the small number of female entrepreneurs is that women have other priorities than men. Women are establishing their own businesses to win freedom and flexibility in
order to be able to take better care of the family, whereas men are more concerned about creating something that grows and becomes a success.

It is often claimed that women have more difficulty in financing their projects than men have and that women are not as good at looking self-assured and ambitious, as men are, when they meet their financial counsellor. However, the analysis of the Danish Agency for Trade and Industry finds that this is not always the case. Many women have an excellent relationship with their bank and to their financial counsellor. The explanation of the difficulties that some women report seems to be that they have chosen other trades than men have and that they have lower ambitions for their enterprises.

5.4 Impact evaluation

Approximately 16,000 new enterprises are established annually. The number of new enterprises has increased by 1,000 since 1996. In 1998 the rate of establishment (new enterprises in relation to the total stock of enterprises) has increased from 6.4 percent to 7.0 percent. Most enterprises are established within business services and retail. The largest increase is seen within the IT consultancy sector with about 1,400 new enterprises in 1998.

It makes sense, as the general trend is to replace the old policy of activity support and support to individual entrepreneurs with a new policy of establishing frame conditions for entrepreneurship and for job creation in relation to new needs. The policy of reduction of administrative burdens for small business should be rightly understood. It is not a policy of returning to a system where small business could act without being transparent to the authorities. On the contrary, they talk about a simplification that does not reduce the amount of control. This task is not as easy as the first one mentioned, but they seem to have obtained that the system at least has not become more complicated and troublesome.

A culture of entrepreneurship as a contrast to the wage-earner culture has been discussed a great deal. A system like the one being tried in the incubator initiative seems to be necessary if research results shall be transformed into business ideas, but it seems to function as much as a cradle for pure business ideas as having the function of transforming research results. This may be because the cradle for business ideas is needed too. The incubator initiative seems also to lack continuation of capital that can be used when more than DKK 750,000 is needed before venture capital is ready to step in.

The system of free counselling seems to have been a great success in regard to the great number of persons using it, of whom a great proportion are entrepreneurs. A great effort has been put into elucidating the question why so few women chose to become entrepreneurs, and why their enterprises do not show the same growth as the enterprises of their male counterparts. It does not seem to be simple, however, to transform this great effort into provisions that make it easier for women to become self-employed.

In this area a number of policies that are in accordance with the employment guidelines have also been implemented. It is not possible though to assess whether this has lead to an improvement of job creation in the area that would not otherwise have taken place.
Theme 6: Employment creation in services and in the local and social economy

6.1 Background

Together with the efforts of increasing self-employment the potential for exploiting job creation at
the local level, in the social economy as well as in the service sector, is part of the entrepreneurship
pillar of the employment strategy.

In the local environment the common interest in economic activity is more visible and new needs
that cannot yet be met by the market easier to identify. These goals concern the possibilities of de-
veloping an economic activity with such aims, e.g. in environmental technology or in social econ-
omy. Possible impediments should be identified and reduced, and the role of local authorities and
the social partners enlightened. Likewise the framework conditions of job creation in the service
sector and industrial services should be used and developed.

6.2 Policy developments

A major initiative in this area is the 1996 Act on Home service, which has several objectives. One
objective is to provide employment for persons without education who have otherwise difficulties
in finding a job, and to fulfil the needs of families with children where both spouses are working
and therefore have not much time left for housework. Another objective is to change these activities
from black labour into white labour by giving a subsidy that roughly equals the tax, and by these
means turn these activities into livelihood for persons of whom a part would probably otherwise
claim public support.

The Home Service Scheme can be seen as a step on the way to the new policy. The scheme intends
to create and promote a new niche of economic activity and satisfy a need that has not been ade-
quately satisfied before. At the same time is does so by using quite traditional means in the form of
support to each working hour being produced.

The home service scheme yields support to home activities such as shopping, cleaning, cooking,
dishwashing and laundry, gardening, and from 2000 also to fetching children in kindergarten. The
main activities are cleaning and gardening.

Home service has been a success in so far as the supported activity has been steadily growing. In
1997 a support of DKK 322 m. was paid, in 1998 the support grew by 40 percent to DKK 449 m.,
in 1999 the growth was 35 percent to DKK 607 m. As a consequence of reduced support rates the
support for 2000 was only DKK 476 m.

In 2000 a new scheme of service jobs was introduced. This scheme does not create new enterprises,
but tries to create jobs in the service sector by offering DKK 100,000 yearly to employ insured
long-term unemployed persons in the public sector or in non-profit companies. The purpose is to
employ older unemployed persons, who are difficult to integrate on the labour market, and at the
same time strengthen the level of service in the public and non-profit sector.

The Danish concept of Business Links was introduced in a white paper in 1995 (Erhvervsminis-
teriet). The reason being, an identified need for simplifying, focusing and co-ordinating the regional
industrial policy.

A Business Link is an organisational framework for discussing linkages between industrial- and
labour market policies on a strategic level. The purpose of the Business Links is to build upon the
earlier obtained experiences as basis for strengthening the dialogue between the various organisa-
tions and institutions at the regional level. Further, the objective is to obtain a greater total effect of the efforts on regional level by co-ordinating the initiatives taken in different sectors and to do it on a larger scale by involving more parties. This is effectuated by enlarging the traditional group of participants in the co-operation to include counties and regional labour market councils. Focus has been placed on co-ordinating labour market and industrial policy. Further, the co-operation is enhanced to include the topic of developing the business environment by establishing and maintaining favourable framework conditions for business in a broader sense.

12 Business Links have been created since the introduction of the concept. The process of establishing the Business Links has contributed to a better common understanding of opportunities and challenges in the regional development. The involvement of organisations and institutions on a larger scale e.g. representatives of the system of education has not always been an easy task for the Business Links.

The Business Links have been successful in creating cross sector projects and projects cutting across traditional geographical borders. In general the experiences of the Business Links are good and time has come to discuss how to improve the partnerships of regional development.

Employment pacts have been established according to an idea of the European Council. The overall purpose is to create and develop political dynamics where the employment initiatives come from the local level, based on a broad partnership with participation from both the public and the private sector, and with action plans building on analysis of local conditions and leading to an integrated strategy and innovative provisions aiming at job creation. The project coordinator of an employment pact works out an action plan based on local and regional employment problems, which has to be approved by the EU. Five such pacts have been approved in Denmark.

6.3 Assessment of performance

In 1998 the Danish National Institute of Social Research made a survey for the Danish Agency for Trade and Industry concerning knowledge and use of Home Service by the potential customers that are a representative sample of the population (Erhvervsfremme Styrelsen, 1998a). This survey showed that 81 percent knew that the scheme existed and 63 percent were satisfied with the scheme, whereas only 6 percent found the scheme useless. People who are actually using home service are rather happy about it. 89 percent of the customers are very satisfied or satisfied with the company that delivers the service. Furthermore, the survey showed that the potential market for home service was large because 30 percent of the households that did not use it declared that they might be willing to use home service at some point.

In 2001 the consultant group of The Ministry of Trade and Industry made an evaluation of the social economic consequences of the home service scheme (ErhvervsUdredning.dk21). This evaluation concludes that the home service scheme is actually fulfilling its three main purposes: more benefit for families and the elderly, less do-it-yourself work and moonlighting, more jobs for people with a short formal education. The home service scheme thus means that the consumers are able to buy time as they are saving time that they formerly used on cleaning or gardening. So they are able to work more or to spend more time with their children, family and friends. The total value of the free time or additional consumption that is made possible in this way and that is the total welfare gain of society is calculated to DKK 900 m. yearly or DKK 3,500 in average for each household that makes use of the home service scheme.

A recent evaluation of the local coordination committees (Caswell & Jensen, 2001) has found that the committees have turned out to function in rather different ways. Four main types of coordination committees can be distinguished: 1 – the coordinating committee who makes priorities between
goals, target groups and types of effort and attunes that to the municipal policy; 2 – the local actors’ committee where the relation to the local labour market is the strength and the main task is opening the local labour market; 3 – the exchanging committee that is common for several smaller municipalities and where the concert of municipal policies is in focus; 4 – the weak committee characterised by having not found any way to make a difference.

In 1998 the Danish Institute of Border Region Studies in Haderslev made an evaluation (Erhvervsfremme Styrelsen, 1998b) as to which degree the business links lived up to their purpose to augment the effect of the trade and employment political effort. This evaluation shows that the vast majority of business links in fact create a greater total effect of trade and employment policy. At the same time it was clear that the municipalities are the leading forces in most of the business links, perhaps because the majority of the financing comes from the municipalities. As a consequence the municipalities also experience the greatest gain from this cooperation. Furthermore, it appears from the evaluation that the representatives from the trades and industries hold that the business links have contributed to improving the cooperation between enterprises and municipalities.

As to the business links it could be discussed whether the actual distribution of work, where the municipalities most often are very active and governing whereas the counties and the regional labour market councils are much more passive, is suitable. In order to get the interdisciplinary and broad debate that the idea behind the business links should inspire, the counties and the regional labour market councils perhaps should play a greater role in the practical work in the business links. If not there is a risk that business links will just become a form of cooperation between municipalities in the region. The purpose of including counties and regional labour market councils was to obtain a geographical connection between the business links and the regional authorities and to get employment policy and educational policy integrated in trade policy.

6.4 Impact evaluation

The “old-fashioned” scheme of service support for the home service has been a success. The support scheme is not just motivated by employment but also by the wish to transform the black economy (moonlighting) sector into a sector without black economy (non-moonlighting). Both purposes seem to have succeeded. Home service has been established as a concept that most people know and a growing number of customers make use of. Even though the support to gardening was reduced, the activity continued growing.

The effort of business links seem to create the administrative bodies that are able to address the problems in a local scale, and the evaluation found them successful. The employment pacts seem to be formed in a similar way but they have not yet been evaluated.

In terms of social economy and the present situation taken into consideration it does not seem possible to take any initiatives of action now. But it should certainly be possible to start research, investigations and experiments with the purpose of finding out whether there is something in this sector that could be of any use. The cooperation of national action plans is not just a show of what we are good at, but it should also be an opportunity to learn and be inspired by what others do.

Theme 7: Taxation

7.1 Background

The employment guidelines have in the area of taxation a specific focus on possible reforms of the tax system in order to increase the incentives of unemployed and inactive persons to take work.
The modernization of the Danish personal taxation scheme started with the 1987 reform, followed by further reforms in 1994 and 1999. The last two reforms will be presented in detail. The 1987 reform broadened the tax base and introduced new income concepts for taxation. A very important feature of the 1987 reform was that negative capital income, i.e. interest expenditures, could no longer be deducted from the top, but now got a much lower tax value.

The Danish personal taxation scheme formally has 3 components, one at state level and two at local level. The two local level components are usually seen as one, at least from the taxpayer’s point of view. Local taxation is proportional in the sense that within the same municipality and county the tax rates are constant. The rates can vary between municipalities, also within the same county, and between counties. The tax base and the basic allowance is the same in all local taxation across the country.

The state tax has three steps, a bottom (or basic) level, a middle (or medium) level and a top level (high rate tax). Each step has its separate tax rate and deductions and the scheme provides a clear progression in personal state taxation.

Employees pay social contributions of which the most important is the general 8 percent labour market contribution, the additional contributions for unemployment and early retirement insurance (voluntary) and contributions for supplementary public pension schemes.

It is a characteristic of the Danish taxation scheme that employers by a European standard pay very small social contributions. This is important when total taxation of labour income is considered.

7.2 Policy developments

The 1994 tax reform was gradually implemented from 1994 to 1998. This reform introduced a new concept in Danish personal taxation that of a general social contribution (The Labour Market Contribution) levied on earned income (income from work). This general contribution was for financing expenditures related to the labour market, primarily unemployment benefits and active labour market measures. It is levied on gross income minus contributions for employer administered pension schemes and also carries the label, ‘the gross tax’.

In the period from 1994 to 1998 it is obvious that the reduction of the state Bottom tax rate from 14.5 to 8 per cent is the driver in reducing the tax burden on labour. The other tax and contribution rates have increased or been constant, and the combined result is a relatively modest reduction of the tax burden. Using the OECD’s APW as yardstick the average taxation in 1994 was 45.7 percent of the gross wage; in 1998 it was 44.3 percent, indicating a minor reduction in the tax burden for the average production worker in the manufacturing sector.

The 1999 tax reform did not change the structure of the taxation system as it was established by the 1994 reform. The main objective of the reform was to dampen the very strong price development for self-owned homes. The instrument used was a reduction of the tax value of deductions of negative capital income. This had an impact on the bases for the tax components.

The implications of these changes are that by 2002 the base for all 3 state tax components will be very similar, it is personal income plus positive capital income. For the state Top tax there will also be contributions for some specific pension schemes included in the base. The 1999 reform implies a considerable broadening of the base for state taxation. There are no changes for local taxation (except that imputed rent from 2000 is no longer part of capital income).
For the period 1999-2002 it is again the reduced tax rates for the state Bottom tax, which drives the reduced taxation of labour. Also contributing is the increased allowance for the state Middle tax.

7.3 Assessment of performance

One way of assessing the development of the tax burden on labour is to calculate the average tax for the OECD’s Danish ‘Average Production Worker’ the APW. This is a very simple approach and in no way the only one possible. It has the advantage that it focuses on labour income (wages) and the taxation thereof. Only standard deductions or tax credits and standard social contributions are included. The APW is assumed to work full time (including average overtime) in the manufacturing sector and the wage development then reflects the average development for skilled and unskilled, men and women working in this sector. For most countries the wage level of the APW is above the average wage level in the country and the development does not necessarily follow the average wage development in the country. The APW is, so to speak, a minimum frame to illustrate the basic functioning of the tax system in relation to wage income. It has the further advantage that the APWs are basically comparable across countries they can be the basis for international comparisons.

Based on the APW frame the average taxation is calculated for each of the years 1994 to 2000 in Table 11.

Table 11. Average taxation (including employee paid social contributions) of Danish APW 1994-2000.

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage</td>
<td>234,600</td>
<td>240,100</td>
<td>249,200</td>
<td>257,000</td>
<td>263,300</td>
<td>274,200</td>
<td>282,600</td>
</tr>
<tr>
<td>Tax</td>
<td>107,226</td>
<td>108,568</td>
<td>111,648</td>
<td>115,436</td>
<td>116,610</td>
<td>121,276</td>
<td>124,688</td>
</tr>
<tr>
<td>Average tax</td>
<td>45.7</td>
<td>45.2</td>
<td>44.8</td>
<td>44.9</td>
<td>44.3</td>
<td>44.2</td>
<td>44.1</td>
</tr>
</tbody>
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There was, as already mentioned in connection with the 1994 tax reform, a relatively modest decrease in the tax burden of 1.4 percentage points from 1994 to 1998. From 1998 to 2000 it decreased further by 0.2 percentage points, in total a decrease of 1.6 percentage points from 1994 to 2000. The nominal wage increase for the period is approx. 20 percent, the increase in the personal allowance, used both for local taxation and the state Bottom tax, has only been approx. 14 percent.

In order to illustrate the development when the income varies table 12 contains the results of average taxation for 75 percent, 100 percent and 150 percent of the APW income level in both 1994 and 2000.

Table 12. Average taxation (including employee paid social contributions) at varying income levels in 1994 and 2000. Income levels in per cent of APW:

<table>
<thead>
<tr>
<th></th>
<th>75</th>
<th>100</th>
<th>150</th>
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<tbody>
<tr>
<td>Average taxation 1994</td>
<td>42.3</td>
<td>45.7</td>
<td>52.5</td>
</tr>
<tr>
<td>Average taxation 2000</td>
<td>41.9</td>
<td>44.1</td>
<td>50.2</td>
</tr>
</tbody>
</table>

Source: Own calculations based on table 11 data.
At the ‘low’ income level (75 per cent of the APW) there is only a marginal difference between the tax burdens in the two years, at the ‘high’ income level (150 percent of the APW) it is somewhat larger but still only a little more than 2 percentage points. The Danish tax burden at the ‘low’ income level is in particular high by European standard.

Table 11 and 12 only contain results based on gross wages as received by the employee. Social contributions paid by the employer are in several European countries a major component in taxation of labour. This is not the case in Denmark, where this component is insignificant, probably between 1 and 2 percent of the gross wage at the APW level. There have been changes in this component but not very significant ones, so this component has been ignored here. The very low Danish employer paid social contributions also have the effect that total taxation of labour in Denmark is not out of line with that of several other European countries, while taxation of the employee alone is the highest in the EU at the APW income level.

The tax burden illustrates the overall taxation at different income levels, whereas the marginal tax illustrates the effect of a (small) change in income. Marginal taxation is, therefore, often important when decisions concerning more (or less) work are in focus. Working more may be more hours in the same job but the marginal taxation may also be important when deciding to go for a better paid job or not. Low marginal tax rates are consistent with high incentives to work more. Marginal tax rates should, however, not stand-alone, they should be considered together with tapering of means-tested benefits. The marginal effective tax rate (METR) as this combined measure is called is the relevant concept, but the marginal tax rate often constitutes the most important component of the METR. This is considered in Theme 2, Tax/benefit system. In labour supply considerations it is only the marginal taxation of the employee, which is relevant. The employer paid social contributions is of relevance when demand for labour and labour costs is considered.

The development in marginal taxation at the APW income level is illustrated in table 13, which also contains the maximum marginal tax rates for each of the years 1994-2000.

The most significant change at the APW level (and also at max. level) is from 1994 to 1996 when the temporary tax was gradually phased out. From 1996 to 2000 there are only small changes at the APW level. The marginal rate at the APW level is 50.4 percent in 2001. The maximum marginal tax rate is 63.3 percent, the same as in 1999 and 2000.

Table 13. Marginal taxation at the APW income level as well as maximum marginal taxation in the period 1994-2000.

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</thead>
<tbody>
<tr>
<td>APW</td>
<td>56.5</td>
<td>54.5</td>
<td>51.7</td>
<td>52.1</td>
<td>51.2</td>
<td>51.0</td>
<td>50.7</td>
</tr>
<tr>
<td>Maximum</td>
<td>67.4</td>
<td>66.3</td>
<td>65.3</td>
<td>63.8</td>
<td>62.4</td>
<td>63.3</td>
<td>63.3</td>
</tr>
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Note: the temporary pension contribution in 1998 is treated in the same way as its permanent replacement from 1999, the special pension contribution, i.e. as a tax. If the temporary pension contribution is not treated as a tax the maximum marginal taxation in 1998 was 62.0 per cent.

Source: own calculations based on tax rates from section 1.2 and 1.3. The church tax is assumed to be 0.7 percent in average for all the years. The marginal tax rate at the APW level is based on the average local tax rate. The maximum marginal tax rate is based on the earlier mentioned marginal tax ceiling.
Fiscal drag is also of importance for the number of persons paying state Top tax. The state Top tax allowance has only increased approx. 14 percent in the period (1994 to 2000), substantially lower than for instance the APW income, implying that more and more persons are paying the state Top tax and then are exposed to the maximum marginal tax rate if they are living in ‘high local tax’ communities.

Table 14 contains the marginal taxation corresponding to the average taxes recorded in table 13.

Table 14. Marginal taxation (including employee paid social contributions) at varying income levels in 1994 and 2000. Income levels in percent of the APW:

<table>
<thead>
<tr>
<th></th>
<th>75</th>
<th>100</th>
<th>150</th>
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<tbody>
<tr>
<td>Marginal taxation 1994</td>
<td>51.7</td>
<td>56.5</td>
<td>67.4</td>
</tr>
<tr>
<td>Marginal taxation 2000</td>
<td>50.7</td>
<td>50.7</td>
<td>63.3</td>
</tr>
</tbody>
</table>

Source: own calculations

There are some differences between the two years for the medium and high-income levels, but very little at the low-income level. In 2000 the marginal tax rate is the same at the low and the medium income level. The problem here is that the low-income earner could also have means-tested social benefits, e.g. housing benefits and subsidized child-care, resulting in an METR which is much higher, perhaps in the 70 to 80 percent range, and then the incentive to work more is quite limited.

7.4 Impact evaluation

There have been several Danish studies of the effects on labour supply from changes in taxation. The usual concept for measuring these effects is the labour supply elasticity which is defined as the percentage change in labour supply (hours worked) in relation to a 1 percent increase in disposable income. The increase in disposable income may be due to tax reductions. The studies have resulted in varying estimates of the labour supply elasticity. The latest estimates, applied by The Economic Council, 2001 are quite low compared to the results of earlier studies, but are considered to be more reliable. The average elasticity is 0.1 (higher for women and lower for men) indicating an increase in hours worked by 1/10 of a percent when the disposable income increases by 1 percent.

In relation to the employment guidelines the changes in the Danish tax system have not been directed towards an increase of incentives of unemployed and inactive persons to take work. The changes in the average taxation during the 1990s are very small, and smaller for low-income than for high-income earners. This taken in connection with the very small labour supply elasticity indicates that the evolution in labour taxation has not had an impact on the incentives for unemployed and inactive persons to take work. This conclusion is very much in accordance with the political goals in Denmark during the 1990s when changes in the tax system were not used as active tools in the policies to increase employment.

Theme 8: Modernising work organisation

8.1 Background

The purpose of adaptability is to enhance the potential of businesses and of their employees by modernising the work organisation and forms of work while maintaining a reasonable balance between flexibility and security.
The questions regarding flexibility on the labour market are generally very different in Denmark compared to other European countries. There are no major legal constraints of flexibility on the Danish labour market, where most regulation is the subject of collective agreements. At the same time there has been very little political will to interfere with the process of collective bargaining during the 1990s.

Moreover, the Danish labour market is already very flexible and has become even more so over the last decade. The collective bargaining has been largely decentralised, thus leading to a greater flexibility in the way firms can organise the use of their workforce, mainly in relation to working hours.

In Denmark the need for flexibility in production of goods and services has traditionally been handled through hiring and firing of workers by the firms. On the one hand the rules for dismissal in Denmark are among the most liberal in the world and on the other hand the public maintenance system for the unemployed is well developed with easy access for laid off workers.

8.2 Policy developments

The Danish NAP from 1998 mentions the need of cooperation from the social partners in order to improve the adaptability of enterprises. In the NAP 1999 a resolution from the social partners is included, where they promise to work towards incorporating more flexibility in the collective agreements. In the private as well as the public sector of the labour market this flexibility has mainly been implemented in regard to working hours. Today it is possible for more than 70 percent of workers covered by the important LO/DA agreement to vary working hours over a period of one year (DA, 2001). This gives the firms an important tool in dealing with fluctuating demand. Moreover, an increasing number of firms seem to be using quiet periods during the year for training of the workforce instead of firing parts of the workforce temporarily.

In regard to part-time, there has been an increasing access to part-time work in the most recent general agreements for the private sector. In the public sector there is a general access to part-time work.

The active line in the social and labour market policies must also be expected to have some impact on the adaptability of enterprises.

Finally, there have been some initiatives aimed at modernising the way firms organise internally. It has been shown that firms with flexible organisations are more productive and more innovative than firms without a flexible organisation (cf. Erhvervsministeriet, 1996). Therefore, a furthering of flexible organisations in the firms can be assumed to secure the growth of firms thus increasing employment.

This sort of development has to some degree been supported in the Danish NAPs since 1998. The NAP 1998 mentions the Government’s intention to support more research on the management’s role in securing the development of flexible organisations. This research has mainly been supported within the project “management, organisation and competence” (Danish NAP, 1998, p. 58-60). And there is a goal of 50 percent of firms having a “flexible organisation” in 2002.

8.3 Assessment of performance

Firms’ better ability to vary the weekly working hours according to fluctuating demand is probably the most important change. Even though the standard weekly working hours in Denmark has re-
mained stable at 37 hours/week since 1990, the successive general agreements throughout the 1990s have seen a marked increase in the flexibility of working hours.

This means that working hours do not have to be 37 hours for each single week as long as the working hours average 37 hours/week over a period of reference. This period of reference has increased steadily over the last decade to a point where 67 percent of the employees in the LO/DA area are subject to general agreements allowing reference periods of more than one year.

The Danish National Institute of Social Research has been monitoring the development in the social responsibility of Danish firms since 1998. Two surveys among a sample of Danish firms have been carried out in 1998 and 2000 (Larsen & Weise, 1999; Kruhøffer & Høgelund, 2001).

The surveys have covered the firms’ attitude towards whether the changes in public regulation and general agreements have made it easier or more difficult to recruit and retain persons with reduced working capacity. This is a measure of the firms’ attitude towards the impact of the legislative framework on their social responsibility.

For private firms the survey shows an improvement in the possibilities of employing people with reduced work capacity within the general agreement in 2000 compared with the 1998 general agreement.

The development and furthering of flexible forms of organisation in the enterprises are specifically stated goals of the NAPs from 1998 to 2000. The specific objective is that 50 percent of enterprises should have a flexible organisation in 2002 as compared to 20 percent in 1997 (Danish NAP, 2000). An amount of DKK 237 m. has been set aside for this purpose, mainly supporting research through the project “Management, organisation and competence” and consultancy services as well as the use of continuing education and cooperation between business and universities (Regeringen, 1998).

The Danish National Institute of Social Research has carried out research on the use and consequences of flexible management and empowered work. This research clearly shows the flexible organisation of work as having a positive effect on the continuing stable employment of workers.

Other sources presenting information from case studies at Danish firms seem to support the view that successful implementation of flexible organisation and management features is an extremely slowly moving process (Thaulow & Friche, 2000; Arbejdsmarkedsstyrelsen, 2001).

8.4 Impact evaluation

As there has been no reduction in working hours in Denmark since 1990, it is self evident that no jobs have been created due to shorter working hours. The extension of business hours in some sectors, such as retailing might have created some new jobs, but these seem to be mainly non-standard jobs held by students and school children (Boll, 2000).

It is altogether hard to draw a hard line between job creation and other labour market policies in an economy, which, as is the case in Denmark, is very close to full employment. The question is not one of redistributing work, but rather one of improving the labour supply, to be able to meet the demands of the job market.

Danish workers seem to be working more today than 10 years ago. The average part-time frequency has been declining steadily since the early 1980s.
As part of the agreements in the important LO/DA area, the access to part-time was improved in 2000. Before the 2000 agreement 78 percent of the employees had free or partial access to part-time work. After 2000 this number has increased to 89 percent (DA 2001, p. 184). Even though the access to part-time has generally improved in the general agreements, the option still seems to be less used. For women the part-time frequency has fallen from 22 percent in 1994 to 17 percent in 2000. There are two possible explanations for this development. First, the labour market participation of Danish women has an comparatively long history, with the majority of women entering the workforce in the 1960s and 1970s, therefore, the labour market participation of women has matured to a point where most women want to be fully active in their jobs on equal terms with men, thus making part-time work seem unattractive. Secondly, the generally low unemployment has resulted in a scarcity of (qualified) labour thus making employers’ offer more full-time positions rather than part-time positions in order to fulfil their need for labour.

This last explanation is in line with the fact that there has been an increase in the average number of hours worked per year from 1,429 hours in 1995 to 1,441 hours in 2000.

All in all, many of the intentions from the NAPs regarding the possibilities for part-time and other flexible forms of employment have been implemented in the Danish agreements. But the impact has probably been very limited, as there seems to be a preference for full-time work.

Firms are actually reporting an increase in the number of persons with reduced work capacity employed in ordinary jobs. The number of these employees has increased from approximately 16,000 in 1998 to approximately 29,000 in 2000 (Kruhøffer & Høgelund, 2001). Whether this increase in reported social responsibility is an actual change in the number of this type of persons employed or merely reflects a growing awareness of reporting these jobs in surveys remains to be answered.

The share of firms employing persons with reduced work capacity in ordinary jobs has also increased slightly from 9 percent in 1998 to 11 percent in 2000 (Kruhøffer & Høgelund, 2001).

Moreover, there has been an increase in the number of persons employed according to the social clauses in the general agreements, from approximately 1,000 in 1998 to almost 3,000 in 2000. There has also been a slight increase in the number of employed persons with an immigrant or refugee background from 68,000 in 1998 to 75,000 in 2000 (Kruhøffer and Høgelund, 2001).

As for the impact of flexible work organisation within the firm, the Danish National Institute of Social Research has made an analysis of the extent and consequences of flexible or empowered work in Denmark.

It is often assumed that a modern work organisation inside firms – for instance the previously mentioned empowered work – makes for more stable labour market attachment for the workers. This is partly because workers working in flexible organisations typically have more skills and are, therefore, less dispensable for the firms, and partly because they if fired because of their experience working in a modern flexible setting must be assumed to have better possibilities finding a new job.

In general, this assumption has been found true when tested in a recent study: modern work organisation in general is furthering stable employment relationships (Boll, 2001).

As already mentioned it is difficult – if not impossible – to assess the effect of the NAP initiatives aimed at introducing flexible forms of organisation at the enterprises on employment. As the NAPs have only been in existence for the last few years, no data are available, which can identify the influence of the specific policy measures related to NAP, on the development of new organisation of work and the resulting employment effects. There are simply no data available at present describing
the developments since 1998. But analysis this far suggests that a more widespread use of flexible forms of organisation would be likely to improve employment.

In the evaluation of the effect of empowered work on long-term labour market attachment, we try to eliminate this by controlling for a number of factors in a multivariate regression model. Even in such a model, we find a significant effect of the work organisation on long-term labour market attachment. People who have an empowered work are far less likely to be dependent on public income support than people who have a traditional work (Boll, 2001).

The establishment of modern forms of management practices in firms also seem to affect the satisfaction of employees in a positive direction. In a recent evaluation it has been established that the introduction of modern work organisation seems to be viewed very positively by employees whereas it is hardly possible to see any effect on the economic performance or growth potential of the firms (Arbejdsmarkedsstyrelsen, 2001).

**PILLAR IV: OPPORTUNITIES BETWEEN WOMEN AND MEN**

**Theme 9: Equal opportunities**

**9.1 Background**

The goal of increasing overall and women labour market participation set up as one of the Lisbon targets, can only be reached through more equal opportunities for women. In this area a specific instrument has been the call for a mainstreaming of equal opportunities under each of the four pillars of the employment guidelines, for tackling the gender gap on the labour market and for measures to facilitate the conciliation of work and family life.

Compared to women in other countries Danish women have very high employment and activity rates. At the same time Danish women have lower employment and activity rates and a higher rate of unemployment than Danish men. Furthermore, the Danish labour market is gender segregated – the jobs men and women hold are very different, and the average wage level is lower for women than for men.

One of the policy aims of the Government is to increase the gender equality on the labour market. This particular aim is to reduce discrimination, eliminate the gender wage gap, obtain an equal activity rate for men and women, break down the gender segregation on the labour market, eliminate women overrepresentation among the unemployed and find a work-lige-balance. But the Ministry of Labour also focuses on other issues in connection with gender equality, for instance working environment (Arbejdsmisteriet, 2001b)

**9.2 Policy developments**

The equal opportunities acts regarding men and women on the labour market have been changed several times after 1997 - often because of international agreements, especially directives from the EU.

In 2000 the mainstreaming principle was established in the Danish legislation. Denmark has earlier joined the mainstreaming strategy on the UN World Conference for Women in Beijing in 1995. The EU formalised the mainstreaming strategy in the Amsterdam Treaty and the strategy entered the
employment guidelines in 1999. The mainstreaming strategy implies that the public authorities are to promote equality and to incorporate the equality aspect into all their planning and administration (L 338 af 30/5 2000 and Videnscenter for Ligestilling, 2001b). Furthermore, ministries, state institutions and state enterprises are in the future required to submit a report every second year about their equality work. The first reports were submitted in September 2001 and will in the future be part of the annual reports to the Danish Parliament submitted by the Danish Minister for Equal Opportunities (L 338 af 30/5 2000 and nap, 2001).

The act on equal wages between men and women was changed in 2001 in order to get increased transparency about wage differences and in this way to obtain a better basis with regard to taking legal action. The employees now have the right to give information to anyone about their own wage. Furthermore, an employer with at least 10 employees is now under an obligation to prepare a wage statistics for the firm split up into gender and criteria relevant to the wage fixing if this is demanded by employees or by the union (LBK 909 af 27/9 2000, L 440 and L 445 af 7/6 2001).

The burden of proof has changed in 2001 in cases regarding equal treatment and equal wage. The burden of proof is now divided between the employee and the employer compared to the previous situation when the burden of proof lay with the employee (L440 af 7/6 2001).

It was decided in the autumn of 1999 to introduce the mainstreaming strategy in the Public Employment Service’s efforts to create gender equality. The mainstreaming strategy is phased in. It started with a pilot project in 3 out of 14 PES regions. The pilot project documented that the employment services (to some extent) have supported the gender imbalances on the labour market. For instance, one of the regions showed that men and women with equal qualifications were registered in a different way in the PES computer system. Typically, men where registered with a profession at a higher level than women. One explanation of this result was a difference in the behaviour of men and women during the interview with the staff on the PES: women would underplay their qualifications, whereas men were aware of their value on the labour market. (Arbejdsmarkedsstyrelsen, 2001 and Jacobsen & Olsen, 2001).

The pilot project also documents that women to a greater extent than men are referred to jobs by the PES, but to a great extent to jobs in female dominated occupations, which are characterised by short-term job, part-time job and/or temporary job, while men are referred to permanent jobs. The consequence is that women more often return to unemployment (Arbejdsmarkedsstyrelsen, 2001).

The results of the efforts in the pilot project show a change in the distribution by sex in the job provision. Women are to a greater extent referred to jobs in male-dominated occupations and men to a greater extent to jobs in female-dominated occupations. These results indicate that the project contribute to breaking down the gender-segregation on the labour market (Arbejdsmarkedsstyrelsen, 2001).

The high degree of coverage with day-care facilities is an important prerequisite for the high activity rate of both Danish women and men. During the last years sufficient access to day-care facilities has also drawn a lot of political attention.

The municipal authorities are responsible for establishing child-care facilities and must ensure the necessary number of places. According to the Social Services Act all children are given equal access to day-care facilities, independent of their parents’ labour market affiliation.
The legislation concerning maternity and paternity leave changed in 1998 – a change, which gives the father increased access to leave. The parents are entitled to maternity benefits during the leave. Collective agreement in the public sector and in most parts of the private sector secures the parents’ right to full wage during leave.

Danish parents – both the mother and the father – with a child between 0 and 8 years old have the possibility of taking child-care leave. The child-care leave scheme was introduced in 1994. But it has been changed several times since then. The child-care leave has become less economically attractive. The leave benefits have fallen from 80 percent of the maximum unemployment benefits in 1994, to 70 percent in 1997 and 60 percent in 1998. The length of the minimum period of leave has been changed from 13 weeks in 1993 to 8 weeks today – the hope is that this will urge more men to take child-care leave (Videnscenter for Ligestilling, 2001a).

9.3 Assessment of performance

The activity and employment rate is high in Denmark compared to the rate in the other EU member states. The employment rate was 74 percent and the activity rate 78 percent for 16-66-year-old persons in 2000, which means that the employment rate is at a higher level than the EU target of 70 percent.

A high activity rate for women is according to international comparisons often combined with a highly gender-segregated labour market, i.e. men and women have different kind of jobs to a great extent. This is also the case for Denmark.

The gender segregation on the labour market is both vertical (men are placed higher in the job hierarchy) as well as horizontal (men and women have different jobs inside the same job level). The gender segregation is caused by several factors. Educational differences between men and women are an essential factor. Women have on average a lower level of education than men. This is, however, changing. The differences in the educational level are very big for the 50-59-year-old men and women, whereas the 30-39-year-old men and women have nearly the same level of education.

The gender wage gap in Denmark has been stable since the mid-1970s. Calculation for the period 1996-1999 shows that the wage gap is larger in the private sector compared to the public sector. The gender wage gap is about 17 percent in the private sector and 9 to 12 percent in the public sector (Pedersen & Deding, 2000 and Arbejdsmisteriet, 2001a).36

The Danish National Institute of Social Research has analysed possible explanations of the gender wage gap in the private and public sector based on wage data from 1996. The wage gap in the public sector is to a great extent explained by difference in education and labour market experience and level of occupation: men have a higher level of education, more experience and jobs at a higher level compared to women. The unexplained part of the wage gap is small. Furthermore, the analysis shows that the economic return of education and labour market experience is lower for women than for men.

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36 The gender wage gap is the difference between men and women’s average wage level in proportion to men’s wage level.
9.4 Impact evaluation

The gender perspective is to a great extent missing in the general labour market policy in Denmark. The main purpose of the labour market policy is to ensure that firms have the manpower they need and to prevent and reduce long-term unemployment (Arbejdsministeriet, 2001). Equal opportunities for men and women are not a main purpose. But the mainstreaming principle, which entered the guidelines in 1999 and the Danish legislation in 2000, implies that public authorities are to promote equality and to incorporate the equality aspect into all their planning and administration. The promotion of equality must of course be carried out without being in opposition to the main purpose of the labour market policy. On the other hand, the reduction of gender gaps can support the fulfilment of the purpose of the labour market policy, e.g. breaking down the gender segregation will increase the firms’ basis for recruitment and reduce women’s unemployment rate (this is also to some extent recognised – for instance in connection with the attempts to break down gender segregation). However, despite the change of the legislation the mainstreaming principle has not so far been a general concern in the economic and employment policy. As mentioned earlier the gender dimension is almost totally absent in the policy under the first three pillars.

The lack of gender perspectives in the general labour market policy in Denmark has been explained by gender blindness – we cannot see gender inequalities and believe that formal equal opportunities for men and women mean genuine equal opportunities (cf. Emerek, 2001a and 2001b). However, Emerek points out that there is a growing awareness of the differences between formal and genuine opportunities. For instance, in the national actions plans for employment there is an awareness of these differences for the first time in 2000: “the measures … are all included in the Governments overall objective of creating a society with both formal and genuine equal opportunities” (nap2001: 52). This may lead to an increasing awareness of the gender aspect in the assessment and formulation of the labour market policy in the future.

Furthermore, not all the measures mentioned under the fourth pillar, are first and foremost carried out from a gender equality view. According to Olsen the introduction of the child-care leave served a twofold purpose: (1) to create job rotation in a situation with a high level of unemployment (to some extent by hiring unemployed persons as a substitute for persons on leave), and (2) to give parents a possibility to mind their own child for a while, which was justified in the interests of the children. The gender equality perspective has according to Olsen been secondary in the law making (Olsen, 2000). The cut in leave benefits in 1997 and 1998 coincided with a drop in the unemployment rate. This shows how important the regard for the labour market was in the legislation.

The focus on the gender wage gap and gender segregation on the labour market and the awareness of the importance of work-life-balance has increased during the last years. However, there has been less focus on the over-representation of women among the unemployed.

To break down the gender segregation it is necessary with changes in two areas: education and work-life-balance.

As it appears from the analysis by Emerek it is important to change young women and men’s choice of education very early in life, if the government want to breakdown gender segregation. But boys and girls do not choose education and job independent of family, sex roles, expectations and traditions. So it is important to initiate measures, which influence their choice of education. For instance, the vocational guidance is not necessarily gender neutral, as the PES’ provision of jobs is not gen-
der neutral. The Government has only initiated few measures regarding education. Examples are experiments with physics and mathematics classes, which consist of girls alone, and an increasing awareness of the differences in boys and girls strengths in the preparation of examination papers.

The Ministry of Gender Equality has in 2001 focused on the work-life-balance and the changes in the collective agreements in the late 90s, which introduced welfare days, i.e. the right to leave days for employees with young children, in the major proportion of the labour market. This increases the employees’ possibilities to take the day off the first day a child is sick, to visit doctors or introduce children to kindergarten and school, thus facilitate the work-life-balance. Both mothers and father are entitled to the family welfare days. The effect of the family welfare days on inequalities on the labour market is dependent on, whether only mothers will use them, or whether fathers also will participate.

In general it is a problem that family-friendly measures are presented as gender neutral, while the different effects on the labour market position of men and women are not taken into account. That is also the case in the new Government’s proposal concerning an extension of the maternity/paternity leave. According to this proposal, it is up to parents to decide whether the mother or the father is to make use of these extra months of leave. The reasoning of this proposal is that it must be up to the family itself to distribute work at home and on the labour market between the mother and the father. But it is not taken into account in the proposal that it probably to a great extent will be women who make use of these extra months of leave and the effect on the gender equality on the labour market.

HORIZONTAL ISSUES

Theme 10: Policy Making

10.1 Background

Active labour market measures were significantly enhanced by the 1994 labour market reform. In 1998, the social policies underwent a similar development as legislative changes introduced active social policies. Improving labour market attachment for people in either system and encouraging more collaboration of non-state actors were common goals of the two reforms.

The obvious features of parallelism represent an innovation in Danish policy. Historically, social and labour market policies have been treated separately. Each corresponds to its proper ministry and quite different systems of policy formulation and implementation have evolved making it appropriate to speak of two distinct pillars.

The labour market pillar attends to insured unemployed by which is understood jobless who are insured in the voluntary unemployment insurance system. The system is union controlled although union membership and insurance coverage are legally separate issues. Approximately 75% of Danish wage earners are members of the union insurance scheme. The labour market pillar furthermore deals with people attending vocational training courses.

The social policy pillar is directed at uninsured unemployed (social assistance recipients), insured unemployed who besides joblessness endure some kind of problem that encumber labour market attachment, anticipatory pensioners, people employed in sheltered jobs, long-term sick, and people on rehabilitation programmes. As may be observed, some overlap occurs between the two pillars.
regarding target groups and the same is the case with respect to methods used to deal with their relation to the labour market.

The social partners have been integrated parts of the labour market pillar for decades and it is characteristic that an institutionalised framework has emerged around the collaboration between the various actors. Occasionally described as an example of corporative governing, channels to involve the social partners in the general formulation of labour market policies have existed at the national level for many years (in fact in some form since 1901) and employers and employees’ organisations have participated in the administration of the public unemployment services (PES) since its creation in 1969. Besides state, regional (county) and local (municipal) authorities, the PES collaborate extensively with educational institutions, private companies, and unemployment insurance funds. In contrast, non-state actors have previously only been marginally involved in the functioning of the social policy pillar and an institutional framework that could give the participation form has been nonexistent. The social partners’ interest and weight in the policy formulation has been insignificant, principally because the attendees – at least temporary – were out of the labour market. The implementation of the policies – basically administration of income transfers – has been in the realm of municipalities, which habitually have involved a number of non-state actors in relation to handling specific cases, but a more universal collaboration about general themes have never developed. It is indicative that the flow of communication in this type of collaboration has always initiated within the municipality.

10.2  Policy developments

Alterations of the administration of the labour market policies in the 1994-reform were just as significant as the changes in the policies themselves and may be summarised as a move from central rule governing to decentralised governing based on frameworks. Reorganisation of previously installed consultative committees both at the national and the regional levels aimed at strengthening the participation of the social partners as well as empowering the regional level. Increasing the number of employer associations and labour organisations represented in the committees and granting new decision power to the regional committees did this. It is worth noting that representation of local governments (municipalities and counties) likewise was increased.

The responsibility of the National Labour Market Council (LAR) is – as previously – to advice the Minister of Labour on the overall development and regulation of the area. A novelty introduced by the reform is that the LAR is entitled to suggest prioritisation of objectives, target groups, and methods used by the PES.

A key concern of the 1994-reform was to adapt the labour market policies better to regional conditions. This was done by abandoning common national rules on how to treat unemployed (e.g. a which point during the unemployment period to offer activation) and instead leave it for the RAR to determine the course of action of the PES in a given region.

The 1998-reform of the social policies contained both substantial and procedural innovations and among the latter, the establishment of Local Committees for Preventive Labour Market Measures stands out. The coordination committees, as they are commonly called, are intended to formalise and add structure to the involvement of non-state actors at the local level as well as to augment the participation itself in the area of socially targeted employment activities.

Along with the creation of the local coordination committees a Central Coordination Committee was founded at the national level. In 2000 the entity was renamed the National Social Council and a secretariat was established to service it. The secretariat also services the coordination committees.
The prime task of the National Social Council is to supervise and support the coordination committees.

The creation of the local coordination committees – obligatory from 1 January 1999 – should be seen in light of the aim to create a more inclusive labour market in general and specifically in light of changed economic responsibilities regarding anticipatory pensions. Contrary to the regional labour committees whose jurisdictions follow county boarders, coordination committees are linked to the municipalities because these have prime authority in social policy matters. However, two or more municipalities may join forces and establish a joint coordination committee. Smaller municipalities typically do this.

Core labour market players are requested to appoint representatives to the coordination committees. They are the Danish Employers' Confederation, the Danish Confederation of Trade Unions, The Salaried Employees and Civil Servants Confederation, the National Labour Market Authority (in practice a representative of the Public Employment Service), the Danish Council of Organisations of Disabled People, the Organisation of General Practitioners as well as a member of the municipal council. In joint committees each municipal council is represented. In around one fourth of the committees, the municipalities have used their right to appoint extra members (The National Social Council 2001). The additional members may be recruited from for instance local business centres, community work groups, the occupational health service, vocational training centres, agricultural organisations, or local individuals whose participation is considered valuable. In total, there are approximately 1,100 members in the 147 committees (Caswell and Pilegaard 2001).

The state has for 2001 set aside little more than 160 million DKK for the coordination committees (The National Social Council 2001). The funds are given directly to the committees according to the central distribution scale used to allocate federal money among the municipalities according to their population and other factors. The average amount budgeted is 584,800 DKK, varying from above 16 mill DKK granted the coordination committee in the largest municipality to 60,000 DKK to the committee in the smallest.

The committees may spend the funds as they wish given they comply with two requisites: Firstly, the funds must be used to further “special local actions directed at enterprises”. Secondly, the coordination committee cannot designate money to an activity if the municipal council objects. Besides this possibility to interpose a veto against a decision from the coordination committee, a municipality has no (formal) influence on how the money is spend.

Studies have suggested that the functioning of the coordination committees is narrowly associated with the strategies the municipalities – consciously or not – apply in the socially targeted employment policies (Damgaard 2000). This further implies that the degree to which non-state actors may become involved in carrying out social policy significantly depends on the local authorities themselves.

Several other governmental initiatives have aimed at promoting direct collaboration between non-state actors and local social authorities. It has for instance been stressed that follow-up actions in cases of long-term absence due to illness should involve both the employer, the union, and the physician of an ill person as well as other relevant people related to the case. Beyond the mere involvement what is new is the significantly increased focus on labour market attachment/integration as opposed to previous collaboration between local authorities and e.g. the employers regarding reimbursement of sick pay.

Particular attention has been directed at private companies. Since 1 January 2000, the municipalities have been obliged to offer free assistance to private companies as to facilitate the administrative
tasks an enterprise may have with regards to retention, prevention or integration of people to the labour market. In about 1/3 of the municipalities this initiative has prompted the local administration to hire new personnel or reorganise in such way as to comply more fully with the tasks (Den Sociale Ankestyrelse 2001).

Private companies have also been the prime targets for written social partnerships drawn up by the municipalities, often with the participation of the coordination committees. The documents are commonly declarations of intent frequently regarding the issue of sick leave but more obligatory texts may also be found in which a company for instance promises to receive a certain number of social assistance recipients in activation.

10.3 Impact evaluation

The impact of improved involvement of social partners and other non-state actors in the Danish active labour and social politics on the objectives drawn up in the NAP guidelines is impossible to measure precisely. A method will always work in relationship with the accompanying policies that may be more or less successful and when – as in this case – the method is also introduced regionally and locally, variety is bound to occur.

Having said this, the overall evaluation of the policy development in this area in the Danish case is positive. First of all, participation has indisputably increased. The social partners and a series of other non-state actors are more involved in developing and implementing labour and social politics now than just a few years ago. This is true both with regards to traditional employment policies (what here has been called the labour market pillar) and with respect to labour market related social policy (the social policy pillar). Within the former, the social partners have become involved in defining target groups and objectives of the Public Employment Services. The sensibility of these issues, which are central for a successful or less successful local employment policy, suggests the responsibility given the non-state actors. Within the latter, a new structure has been created advancing the position of non-state actors as advisors and promoters of an inclusive labour market.

Although involvement of non-state actors has increased within each pillar, there is a striking lack of collaboration between the two administrative systems in spite the move towards more active and employment targeted social policy which brings the two subject matters closer. The dual strunged administration constitutes furthermore a problem because a series of instruments are not available for a number of insured unemployed, which in reality are not immediately available for the labour market because of problems besides joblessness.

These problems have been addressed though in the recent changes that took place with the formation of the new Danish government in November 2001. The sections in the Ministry of Social Affairs that dealt with ‘active social policy’ i.e. the areas and issues described above – has been joint with the former Ministry of Labour in a new Ministry for Employment. These changes on the administrative level of the State is a prerequisite for further changes at the Regional and local level in the direction of integrating the measures for insured and non-insured unemployed. At this moment in time – only a few months after the new Government took office – it remains to be seen how the changes on the State level will affect the handling of labour market policies on the local levels.

Unemployment in Denmark decreased steadily between 1994 and 2000 and the improved functioning of the regional labour market councils is likely to have contributed positively to this development, albeit as explanatory factor the favourable economic development is incomparably much stronger. The RAR have however received just credit for their (improved) ability to detect regional bottleneck problems, to further a balanced development in employment and to create new job positions (Haahr and Winter 1996; Jørgensen et. al 1999).
The increased participation of non-state actors in the socially targeted employment policies in the realm of the municipalities in what here has been called the social policy pillar is likewise difficult to evaluate in terms of impact on the employment. Statistics show that the number of persons employed with wage subsidies have increased by 9% between the second quarter of 2000 to the same quarter of 2001 (Danmarks Statistik 2001) and earlier studies have suggested that the majority of these positions most likely would not have existed without the subsidy (Larsen and Weise, 1999). However, the statistics do not reveal whether more active non-state actors or more effective municipalities acting on their own caused these figures.

Albeit this development only represents a minor impact on employment in general – there are a total of some 35,000 jobs with wage subsidies in Denmark – for persons with limited working capabilities the effect is more pronounced. Hence, while the improved focus on the inclusive labour market and involvement of non-state actors under the social policy pillar seems to have had only little impact on the employment objective, it appears to have had a positive impact on the inclusion objective. It appears that the development has improved the awareness of some of the key issues in the area both among the social partners and among the employees. Surveys report a positive development in the attitude towards prevention, retention, and integration among employees as well as among employers (Larsen and Weise 1999; Høgelund and Kruhoffer 2000, 2001). However, the same studies also document a gap between the improved attitude towards an inclusive labour market and the actual actions taken on the matter.

Another positive impact of the overall development is an increased commitment among the social partners at the national level, albeit the motivation to increase ones involvement may be negative. Hence, a basic motivation to participate for the employers is to assure that the principal of voluntariness for companies is not changed. So far no company is obliged to participate in any part of the inclusive labour market if it does not wish to do so.

In sum the administrative changes with and emphasis on decentralisation and a focus of furthering the involvement of social partners in the formation and implementation of active labour market policies are very positive with respect to the future challenges for labour market policies. Even though it is difficult to point to important quantitative effects on employment of these changes they constitute an apparatus that is more able to deal with the future problems for active labour market policies than was the old centralised and polarized system. Experiences from the 1990s point to the fact that in order to deal with the problems of disadvantages groups in the labour market one has to have an administrative system that encourages all kinds of social partners to take part in the formulation of future solutions. Recent developments in Denmark as described in this section seems to indicate that such a system has been created as a consequence of the reforms that have taken place in the 1990s.
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Appendix 1

Data and methods in the Danish impact evaluation of the European Employment Strategy.

The Danish impact evaluation of the European Employment Strategy is based on information from several sources. The sections on policy development are for each theme based on a thorough analysis of information from Government reports and policy documents, descriptions offered by independent Think Tanks and in some cases from policy analyses conducted by researchers at The Danish National Institute of Social Research and researchers at Danish Universities and other independent research institutions. Based on these sources the policy development sections offer a new and coherent description of developments in the areas covered by the impact evaluation. In doing this, the report and the working papers – on which the report is based – give a comprehensive and detailed description of the developments in Danish employment policies during the 1990s that has not been available so far.

The assessment and impact sections of the report are based on both existing and new analyses. Evaluations conducted by the Danish National Institute of Social Research combined with new analyses on data material for these evaluations and in some case analyses based on new data constitute the cornerstone of the analysis in these sections. In relation to themes 2, 3, 4, and 7 a number of analyses has been conducted on new data whereas analyses in relation to themes 1, 5, 6, 8, 9, and 10 have been based on existing data and/or existing analyses.

In theme 2 and 7, the new analyses directed towards the requirements of the impact analyses are based on the database for the project ‘Elements of Social Security’. General results from this comparative study of replacement rates in European cash benefit systems are published yearly – in English – by the Danish National Institute of Social Research.

In theme 3, parts of the analysis are done by using data from the 2000 Level of Living Conditions survey, which is conducted by the Danish National Institute of Social Research in cooperation with the department of Sociology at the University of Copenhagen. The analysis in this report is the first published result from this survey.

In theme 4, new analyses to supplement existing knowledge on precarious groups on the Danish labour market have been conducted by the Danish National Institute of Social Research based on administrative data in Statistics Denmark.

In relation to the other themes in the evaluation the assessment and impact sections of the report are based on several existing analyses and data, which have been combined and used for the specific requirements set up for the impact analyses. Researchers at the Danish National Institute of Social Research have conducted the majority of these analyses. Results from research reports and evaluations conducted by independent Think Tanks and researchers at Danish Universities are also included in the material on which the report is based.

In some cases the report is mainly based on Government reports. In these cases the group of researchers at the Danish National Institute of Social Research, who has been conducting the impact evaluation, has judged the validity of the information given in these reports.

Representatives from the Danish Ministry for Employment have taken part in the discussion in a working group set up to follow the developments in the evaluation process.