

***Welfare Systems and the  
Management of the Economic  
Risk of Unemployment:  
Denmark***

***Karen Margrethe Dahl  
Dorte Boesby  
Niels Ploug***

*Comparative Welfare State Research  
8:2002*

***Working Paper***

*Socialforskningsinstituttet*

*The Danish National Institute of Social Research*



This paper was presented at the conference: *Welfare Systems and the Management of the Economic Risk of Unemployment – Experiences and Prospects of Reform in the European Union* the 10<sup>th</sup>-11<sup>th</sup> December 2001 at the Robert Schuman Centre for Advanced Studies (RSCAS) in Florence.

# ***Welfare systems and the Management of the Economic Risk of Unemployment: Denmark***

***Karen Margrethe Dahl, Dorte  
Boesby & Niels Ploug***

***Comparative Welfare State Research  
08:2002***

The Working Paper Series of The Danish National Institute of Social Research contain interim results of research and preparatory studies. The Working Paper Series provide a basis for professional discussion as part of the research process. Readers should note that results and interpretations in the final report or article may differ from the present Working Paper. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including ©-notice, is given to the source.

<b>INTRODUCTION</b>	<b>4</b>
<b>SUMMARY</b>	<b>5</b>
<b>PART I</b>	<b>6</b>
<b>Situation on the labour market 1990-1994</b>	<b>6</b>
<b>Basic features of the Danish unemployment protection system</b>	<b>9</b>
Organisational and Institutional features	9
Coverage	11
<b>The Balance between active and passive measures and a description of the active measures</b>	<b>14</b>
<b>THE NATURE OF THE DEBATE</b>	<b>17</b>
<b>PART II</b>	<b>20</b>
<b>REFORM PROCESS BETWEEN 1994 AND 2000</b>	<b>20</b>
<b>The overall aim of the labour market reform process</b>	<b>20</b>
<b>The Labour market reform of 1994</b>	<b>21</b>
Eligibility criteria	21
The Active Approach and The Individual Action plans	21
<b>Adjustments of 1995: “Overhaul” of the labour market reform</b>	<b>22</b>
<b>Changes of 1996: the second phase of the labour market reform</b>	<b>22</b>
<b>The plan of Finance act of 1997 and 1998</b>	<b>23</b>
<b>The plan of Finance Act in 1999: the third stage of the reform process</b>	<b>23</b>
<b>The Plan of Finance Act of 2000</b>	<b>24</b>
<b>The older part of the workforce</b>	<b>24</b>
<b>Update of the changes of the Danish (passive) unemployment system in the 1990s</b>	<b>25</b>
<b>The balance between active and passive measures</b>	<b>26</b>
<b>Changes to the organisational basis of the system: labour market policies based on network coordination</b>	<b>27</b>

<b>The effort towards young people</b>	<b>28</b>
<b>The unemployment situation in the last half part of the 1990s</b>	<b>29</b>
<b>Net replacement rates and Income packaging</b>	<b>31</b>
<b>PART III</b>	<b>34</b>
<b>UPDATE</b>	<b>34</b>
<b>Why were certain reforms adopted instead of others</b>	<b>34</b>
<b>The reforms evaluated by the Danish Ministry of Labour</b>	<b>35</b>
Youth effort evaluated	36
Costs	36
<b>The assessment of the success of the reforms in terms of improving employability</b>	<b>37</b>
Discussions about the right and duty to participate in active measures	37
<b>Assessing the Capacity of Danish Institutions for evaluating success or failure of reform initiatives</b>	<b>38</b>
<b>Future challenges</b>	<b>38</b>
<b>CONCLUSIONS</b>	<b>39</b>
<b>REFERENCES</b>	<b>41</b>

## Introduction

This report describes developments on the Danish Labour Market and in the Danish Labour market Policy during the 1990s. Part I concentrates on the unemployment protection situation in the beginning of the 1990s and describes the unemployment system as it was in 1993. In this year the Danish government shifted from a government headed by the Conservatives to a government headed by the Social democratic party, whose highest political priority was to decrease the unemployment rate and in 1994 a reform process of the Danish unemployment protection system began. At the end of Part I elements of the debate on labour market policies in the beginning of the nineties are presented and discussed. In Part II the developments in the unemployment protection system from 1994 to 1999 are presented. This section includes a description of income packaging and net replacement rates for people receiving unemployment benefits. Finally the overall development of the system during the nineties is assessed and discussed in Part III.

To begin with it could be useful to place the Danish Welfare state in a Nordic context. Denmark belongs to the group of Nordic welfare states. The following characteristics can be said to be typical for the Nordic Welfare states:

1. *A strong emphasis on active efforts*
2. *Generous income maintenance for people of work*
3. *Low reliance on the use of means-tested benefits*
4. *Low level of unemployment*
5. *High level of labour market participation<sup>1</sup>*

These are general points but there are also differences between the Nordic countries. Denmark had suffered from a high unemployment rate since the middle of the 1970s and before the labour market reforms of 1994 the emphasis on active labour market policy was not as strong as in the other Nordic countries. The benefit level in Denmark is generous but only for low-income groups because the unemployment insurance system is connected with a low cap. The high level of labour market participation is due to a high female labour market participation rate.

---

<sup>1</sup> Kautto et al 2001: 184

## Summary

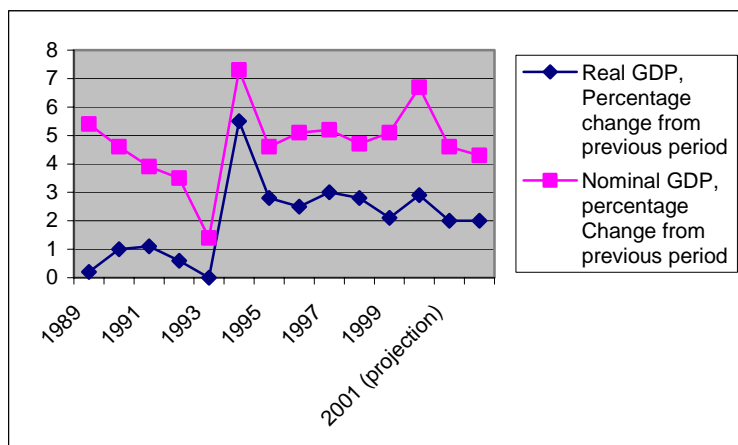
- The Danish welfare state belongs to the Nordic Welfare state type and is characterised by a fairly generous benefit level and a high coverage. Almost every citizen is covered by the social security system and is compensated in the event of unemployment.
- The Danish unemployment rate was high in the 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 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 unemployed individual 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.
- The rules for young people have been tightened. Young people under 25 years receive a lower benefit and the obligation to attend active labour market measures starts earlier and has a longer duration. This change was made in order to increase the incentives to take up higher education and training instead of staying unemployed or in job-areas with high unemployment rates. .

## Part I

### *Situation on the labour market 1990-1994*

In the beginning of the 90s Denmark had a low economic growth rate, which led to a fall in employment and a rise in unemployment (figure 1, table 1, table 2).

**Figure 1: GDP- growth current and fixed prices, Denmark 1991-2002 (2001 & 2002 are estimates)**



The low growth rate was not as shocking for Denmark as for other Nordic countries (e.g. Sweden and Finland), because Denmark had suffered from high unemployment rates since the late 1970s. The high unemployment rates must be compared with an increasing labour force participation rate in the 70s and first half part of the 80s, which was a consequence of the increasing female labour force participation. In 1987 the Conservative/Liberal government introduced a restrictive financial policy. The aim was to turn the deficit on the balance of payment to a surplus. This stopped the increasing labour-force participation rate until 1996, where it began to increase again<sup>2</sup>.

The political effort to stabilize the economy therefore started earlier in Denmark than in e.g. Sweden and Finland and the upturn in economy and decrease in unemployment also came earlier than in most European countries. The public expenditure on unemployment benefits and active measures rose between 1990 and 1993 and the fiscal deficit and total public debt increased during the first years of the 90s but the economy was healthier than in the neighbouring countries with a trade surplus from 1990 and a low inflation rate.

However, reforms with the aim of reducing unemployment and increase employment were not introduced before 1993 (implemented in 1994) when the social democratic party headed the government. In 1994 the unemployment rate began to decrease and also the long-term unemployment rate began to decrease. This is described in part 2<sup>3</sup>.

In 1993 before the labour market reforms were introduced the Danish unemployment rate was 10,8% (table 1). The female unemployment rate was a little higher than the male one. Among these around 50% had been unemployed for more than 6 months and about 33% had been unemployed

<sup>2</sup> Larsen & Langager, 1998: 64-65; OECD 2001: Economic Outlook

<sup>3</sup> Larsen & Langager, 1998:71-75

for more than a year (table 3). Young people suffered most and they were a high priority group in the labour market reforms (table 2). The high unemployment rate among young people could be explained by several factors. The low level of qualifications and experience among the young, small wage differentials on the labour market and a high minimum wage meant that they were less attractive to employ. Finally it was said that the unemployment insurance system especially for the young created some negative incentives to work and to take up educational training, because the unemployment insurance was much higher than the State Educational Support<sup>4</sup>.

**Table 1: Unemployment by sex, persons aged 16-64 years, Denmark 1990-1994**

	1990	1991	1992 <sup>1</sup>	1993	1994
<b>Total</b>					
<i>Employment/population ratio</i>	75.4	-	-	72.4	72.4
<i>Labour force participation rate</i>	82.5	-	83.5	82.7	78.8
<i>Unemployment rate (%of civilian labour force)</i>	8.4	9.2	9.1	10.8	8.1
<b>Men</b>					
<i>Employment/population ratio</i>	80.1	-	-	75.9	77.6
<i>Labour force participation rate</i>	87.1	-	86.9	86.9	83.7
<i>Unemployment rate (%of civilian labour force)</i>	7.8	8.4	8.4	10.5	7.3
<b>Women</b>					
<i>Employment/population ratio</i>	70.6	-	-	68.7	67.1
<i>Labour force participation rate</i>	77.6	-	78.3	78.4	73.8
<i>Unemployment rate (%of civilian labour force)</i>	9.0	10.0	9.9	11.2	9.1

1) Persons aged 15-64

Source: OECD Employment Outlook; OECD Labour Force Statistics 1979-1999

---

<sup>4</sup> Mogensen 48- 62



**Table 2: Unemployment by age, Denmark 1990 and 1994**

	1990			1994		
<u>Age</u>	15-24	25-54	55-64	15-24	25-54	55-64
<b>Both sexes</b>						
Unemployment rates	11.5	7.9	6.1	10.2	7.8	6.5
Labour force participation rates	73.5	91.2	57.1	69.1	87.2	53.7
Employment/population ratios	65.0	84.0	53.6	62.1	80.5	50.2

Source: OECD Employment Outlook

**Table 3: Long term unemployment as a percentage of unemployment, Denmark 1990, 1994, 1996 and 1999**

	1990		1994	
	<i>6 months and over</i>	<i>12 months and over</i>	<i>6 months and over</i>	<i>12 months and over</i>
<b>Both Sexes</b>	53.2	29.9	54.0	32.1
<b>Men</b>	48.9	27.8	52.1	31.9
<b>Women</b>	57.7	32.0	55.8	32.4

Source: OECD Employment Outlook

The unemployment rate differed much between educational attainments. The educational groups with less than upper secondary education had an unemployment rate of 17,3% in 1994 (table 4). This is especially prevailing among women and the high unemployment rate among women with less than secondary education continued to exist through the 1990s. The group of people with a medium-length education has a fairly low unemployment rate. These job areas such as teachers, nurses, social workers (counsellors) etc. have for a long period had very good job possibilities (table 4). The high unemployment rate among the groups with low qualifications has to do with a missing wage-adjustment (*løntilpasning*) during the recession. The employers have employed those with educations rather than those without. The wage-level for those with the lowest education spells has been too high in comparison to their productivity<sup>5</sup>.

---

<sup>5</sup> Jørgensen & Pedersen, 2000: 43-52

**Table 4: Unemployment, labour force participation rates and employment/ population ratios by educational attainment for persons aged 25-64, Denmark 1994**

		Both Sexes		
		<i>Less than upper secondary education</i>	<i>Upper secondary education</i>	<i>Tertiary education</i>
<b>1994</b>	<i>Employment/population ratio</i>	60.1	79.9	88.5
	<i>Labour force participation rate</i>	72.7	88.7	93.4
	<i>Unemployment rate</i>	17.3	10.0	5.3

Source: OECD Employment Outlook

### ***Basic features of the Danish unemployment protection system***

#### Organisational and Institutional features

In Denmark there are two types of income-replacements in case of unemployment, namely the unemployment insurance benefits (*arbejdsløshedsunderstøttelse*) and social assistance (*kontanthjælp*).

#### *Unemployment insurance*

The Danish unemployment insurance system is based on a voluntary-subsidised model. The unemployment funds are state subsidised, connected to the labour unions. Membership fees are low. The system can be termed the 'Ghent-model' characterised by voluntary membership of insurance schemes based on solidarity in professionally limited areas for people connected to these areas, and which can be recognised in the Finnish and Swedish unemployment insurance system. One can say that the unemployment insurance system infers a corporative element in the universal model thereby underlining that it is not a liberal approach because the labour unions still have quite a big degree of influence on the unemployment funds and the fact that the funds are heavily state-subsidised<sup>6</sup>.

Unemployment insurance is voluntary and administered by unemployment funds, which are usually tied to a labour union. Two of the funds are for self-employed (self-employed were included in the unemployment insurance system in 1976). The unemployment insurance funds are independent private associations, but national law lays down their rules of administration.

The requirements for becoming a member of an unemployment insurance fund, in the beginning of the 90s, were either paid work, self-employment, vocational qualifications or participation in a training course for at least 18 months. This means that also young people entering the labour market for the first time after finishing their higher education are entitled to become members of an unemployment insurance fund. Conditions for receiving benefits in case of unemployment were and still

<sup>6</sup> Nordisk Ministerråd, 1999: 65; 95; Palme & Wennemo, 1998: 11

are a membership condition of one year of the unemployment fund and a work condition for full-time insured people of 26 weeks during the last three years. It is also a condition that the recipient shall be available for the labour market in accordance with the 'availability criteria' (*Rådighedsregler*) and of course the recipient has to be unemployed. From 1991 to 1995 the age-limit for entitlement was 17 to 66 years. There are no waiting days. The maximum number of benefit days was 780 within three years, which corresponds to six benefit days per week for 2 ½ years.

Before the reform in 1994 it was possible to re-qualify for benefits by participating in active measures<sup>7</sup>.

The insurance is income related with a low cap, which is decided by law. In 1991 the cap was DKK 114,847 (EUR 15434) per year or about 56% of an APW wage. In 1999 the cap was DKK 173,333 (EUR 23294) per year or about 63% of an APW gross wage. The compensation rate has been 90% of previous gross wage all through the 90s. The low cap means that people with former incomes beyond the income cap receives a maximum amount, which is flat rate. For incomes above the low cap the compensation rate is therefore lower than 90%. There was no minimum benefit but benefits are not given if a full-time insured employed is only entitled to receive benefit for less than nine hours per week. There are special rules for newcomers on the labour market that can receive compensation equivalent to 80% of the normal unemployment insurance pay<sup>8</sup>.

Table 5 shows the benefit levels in the first half part of the 1990s and the related low cap.

**Table 5: Benefit-levels, Denmark 1990-1994**

Year	Compensation systems, Max./Min. Compensation		Cap: Maximum annual income used as calculation basis (Dkr)	Level of Compensation (%)
	Min. benefit level, daily (Dkr)	Max. benefit level, Daily (Unemployment Insurance benefit) (Dkr) 100DKR= 13,4 EUR		
1990	-	409, 6 days per week	114847	90
1991	-	409, 6 days per week	114847	90
1992	-	417, 6 days per week	117093	90
1993	-	527, 5 days per week	123318	90
1994	-	509, 5 days per week	154738	90

Source: Økonomiministeriet 2001; Forsikringsoplysningen 1990-2000, Nososko 1990-1999

The relatively generous benefit level and comprehensive coverage should be seen in the light of some very liberal conditions of employment. In some sectors of the labour market e.g. in the building industry the employer can fire an employee with a notice of only 10 days.

The benefit is taxable and the recipients also pay a supplementary pension scheme (*Arbejdsmarkedets tillægspension (ATP)*) + the fees to the insurance funds. They do not pay social security contributions of 6% (1995 level) (this gross tax or social security contribution was introduced in 1994 and was in 1994 5%) (*Arbejdsmarkedets bidrag*)<sup>9</sup>.

<sup>7</sup> Nososko, 1992; 1996

<sup>8</sup> Ploug et al., 1992:70-71; Nososko, 1995,1992

<sup>9</sup> OECD Denmark, 1999

### *Social assistance*

Unemployed people who do not hold member of an insurance fund can apply for social assistance if they meet certain statutory requirements.

Social assistance is both an alternative scheme and an exit scheme for unemployment insurance. Social assistance is financed by general taxes and is paid as a flat rate amount. The benefit is means tested and because it is given to families, not single persons, both spouses' income are included in the means test. All unemployed who do not have a fortune above a certain amount and cannot be provided for by the spouse, who has experienced a social event (e.g. unemployment, divorce or the breadwinner in the family died) and who is not provided for by other social schemes are entitled to social assistance. The non-insured are mostly young people or immigrants with limited work experience and a weak connection to the labour market but also employees who face a very limited risk of unemployment sometimes choose not to be insured. The group also includes civil servants and the top of the labour market as well as people who have such a weak relation to the labour market that they choose not to be insured. Insured long-term unemployed who fail to fulfil the requirements of the insurance system are also transferred to social assistance.

The benefit level of social assistance was in 1993 for non-providers 50% of the maximum unemployment insurance. The rate for providers has in the 1990s been 80% of maximum unemployment insurance. The social assistance and supplementary benefits such as housing benefits are coordinated in order to secure that the total benefit does not exceed 100% of maximum unemployment insurance<sup>10</sup>.

### Coverage

Table 6 shows the number of insurance funds and the percentage of members of the insurance funds during the first years of the 1990s. The number of insured increased considerably from the middle of the 1970s. In 1975 41.5% of the labour force were insured, in 1985 70.4% were insured, and in 1990 70.1% of the labour force were insured. This number has increased during the 1990s<sup>11</sup>.

Table 7 describes the number of whole-year recipients of unemployment insurance and social assistance. The percentage of the unemployed, which is not covered by either insurance or social assistance is very little and is not necessarily registered if the unemployed does not report themselves unemployed at the job centre. As a lot of jobs are filled without using the job centres, statistical information does not give a good picture of the uncovered unemployed persons. When looking at table 7 one should be aware of that a third part of the social assistance recipients do not receive social assistance because of unemployment. Table 7 does not therefore show the relation between insured and non-insured unemployed.

---

<sup>10</sup> Hansen 2001b: chapter 6: 9

<sup>11</sup> Nososko, 1994; Ploug & Kvist, 1997: 41-42; Jørgensen & Pedersen, 2000: 100-107, Danmarks Statistik, 2001b & 1986

**Table 6: Unemployment insurance funds, numbers and members, Denmark 1990-1994**

Year	Number of Unemployment Insurance Funds	Number of members (Thousands)	In Percent of labour force
1990	41	1958	70.1
1991	39	2008	71.7
1992	39	2138	76.2
1993	38	2174	77.4
1994	37	2198	78.6

Source: Statistisk årbog 1992-2000; Statistisk tiårsoversigt 2001

**Table 7: Number of whole-year recipients (thousands), Denmark 1990-1994**

Year	Unemployment insurance	Social Assistance
1990	211	137
1991	230	158
1992	242	167
1993	274	177
1994	266	139

Source: Statistisk tiårsoversigt 2001

#### *Other benefits flowing to the unemployed*

The most important benefits besides social assistance and unemployment insurance are the housing benefit and a subsidy for day-care institutions. These benefits are means tested. The housing benefit is only given to renters, not owners. Also the housing benefit increases when there are children in the home.

#### *The net replacement rates in 1994*

The net replacement rates in 1994 can be seen in table 8. The development of net replacement rates and income packaging is described in details after describing the reform process between 1994 and 1999.

**Table 8: Net Replacement Rates<sup>1</sup>, Denmark, 1994**

	First month of unemployment				60 <sup>th</sup> month of unemployment <sup>2</sup>	
	Couple, no children		Couple, 2 children		Couple, 2 children	
	2/3 APW <sup>3</sup>	APW	2/3 APW	APW	2/3 APW	APW
Denmark	92	69	93	73	95	83

1. For single-earner households, taking account of taxation and social security contributions.

2. Including Social Assistance

3. The Average production worker wage

Source: OECD 1996: 69

#### *Sanctions*

If the unemployed for the second time refuses to take suitable work or if he or she without reason refuses to take a job, which is given to him/her, the person is excluded from benefits for generally two weeks. These sanctions exist both in the unemployment funds and in the public employment offices. However, this sanction was and is seldom used.

### *Financing*

The Danish unemployment insurance is financed through a fund (*Dagpengefonden*), which receives money from:

- Wage earners and self-employed (from 1997 also from employers). This is paid as the 6% (1995-level) gross tax or social security contribution (*arbejdsmarkedsbidrag*)
- Membership fees
- Contributions from the employers contained in a certain VAP (value added tax) of 3%
- State transfers

In 1994 the tax system was reformed and labour market contribution was hereafter collected as a gross tax. This social security contribution or gross tax increased gradually from 5% in 1994 to 8% in 1998.

The labour market contribution is paid to the Ministry of Finances through general taxes, but parts of them are transferred to the Ministry of Labour as a contribution to the unemployment insurance. Member contributions to the unemployment insurance funds, which are managed by the unions, consist of an insurance contribution to the state and an administration contribution to the unemployment fund. Members of unemployment fund pay labour market contribution through general taxes as well as the member contribution. The state refunds payments of the unemployment insurance funds except for payments, which are given by mistake. In the beginning of the 90s, the state paid 80% of the expenses and the insured paid around 20%. From July 1, 1991, the employers have had to pay unemployment benefit for the first day of unemployment equivalent to the maximum benefit level. From July 1, 1993, this also goes for the second day of unemployment<sup>12</sup>.

As membership is paid to the unemployment insurance funds that in principle compete on market terms, the fees vary between the unemployment insurance funds. For example the unemployment insurance fee paid to “Den kristelige fagforening” (The Christian Union) was 534 DKR (EUR 71,8) for fulltime insurance while the fee paid to “Civiløkonomernes fagforening” (The Bachelor of Commerce’s Union) was 1033 DKR (EUR 138,8) in 2001<sup>13</sup>.

Social assistance is financed 50% by the municipalities and 50% by the state.

### *Organisational basis*

The organisational basis of the labour market policy in the beginning of the 90s was centralised and concentrated on rules set out by the government and the Employment Council (*Arbejdsformidlingen AF*).

Unemployment funds have to be acknowledged by the state. The standard regulations demand very little from the organisation of an insurance fund, however, for administrative purposes, the state demands a minimum number of members (5,000 members all through the 90s) and that a professional delimitation is present in its regulations. This means that only employees with similar professional profiles can be members of a certain union and unemployment insurance fund.

Because governmental regulations are few, the funds differ a lot. In the beginning of the 90s about half of the funds were centrally administrated. The rest were organised in departments with a com-

---

<sup>12</sup> Ploug et al., 1992: 7-25; Hansen, 1998: 15

<sup>13</sup> [www.ca-forsikring.dk/](http://www.ca-forsikring.dk/); [www.krifa.dk](http://www.krifa.dk)

mon leadership with between 2 and 193 departments. As mentioned, there is usually close contact between the unemployment funds and labour organisations as a consequence of the Ghent model. The labour unions wholly or partly take care of the administration of the funds and there are often overlaps in personnel in the competent assemblies of the funds and labour unions and administration. In some funds the division between unemployment fund and labour union does not exist at all. The unemployment funds decide if sanctions should be given to unemployed people if reasons for lost jobs are insufficiently substantiated or due to unreasonable behaviour from the unemployed. They also control whether the individual is available for the labour market. However, the state also controls that the assessments made by the unemployment insurance funds are reasonable. This is done by a work directorate (*Arbejdsdirektoratet*), which among other things monitors the unemployment funds (their administration and accounts) and deal with complaints about decisions made by the unemployment insurance funds. The unemployment insurance funds do not manage the employment offices. These were centrally organised and are managed by the state.

The unemployment funds arrange supervision and job search courses and vocational training. There was very little co-operation concerning supervision with the local employment offices. The unemployment funds had very low activity concerning job offers (*beskæftigelsestilbud*)<sup>14</sup>.

The organisational structure tended to be very rigid and it was a problem to mobilise motivation among the unemployed clients. Rules rather than communication between the system and the individual determined efforts. An unemployed only received help to find a job after a certain mandatory period of waiting and according to deadlines set out in the legislation<sup>15</sup>.

### ***The Balance between active and passive measures and a description of the active measures***

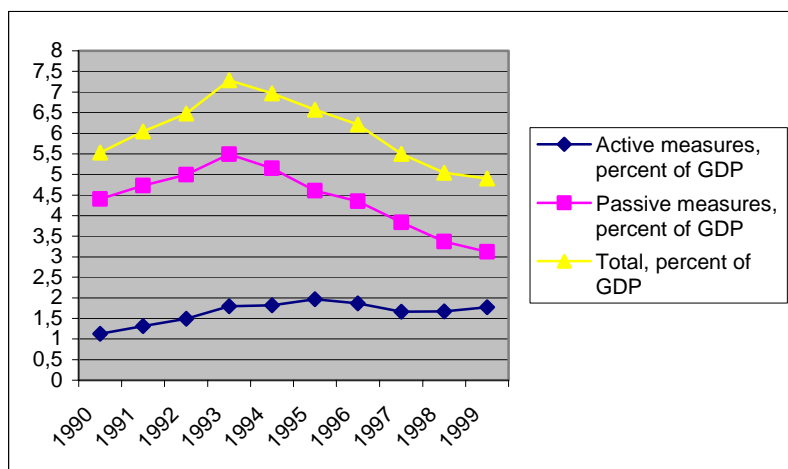
The public expenditures on active and passive measures give a picture of the balance between active and passive measures (figure 2). In 1993 when the public expenditures on unemployment measures culminated, public expenditure on passive measures was 5,5% of GDP and less than 2% of GDP was spent on active measures. After the reform period started in 1994 expenditure on passive measures decreased rapidly while the expenditure on active measures continued to increase. This can be compared with Sweden, which was the pioneer country when it comes to use active labour market measures. In Sweden the expenditure on active and passive unemployment measures was almost equal in 1993 (about 3% of GDP) and Denmark does therefore not particularly emphasise active labour market measures when seen in a Nordic context.

---

<sup>14</sup> Ploug et al., 1992: 7-15; Bekendtgørelse af lov om arbejdsløshedsforsikring, 2001; Arbejdsdirektoratet, 2000

<sup>15</sup> F. Larsen, 1998: 4

**Figure 2: Total Public Expenditure on measures for unemployed, Public Expenditure on active and passive measures, in percent of GDP. Denmark 1990-1999.**



Source: OECD social expenditure database. For the years 1998 and 1999 OECD – Employment Outlook was used. The calculation of these figures might vary from the OECD social expenditure database.

Before 1994 offers to participate in active measures were given at regular intervals during an unemployment spell. They would be given at the latest by the end of a benefit period, which at this point in time was 2 ½ years. It was also characteristic of the system that participation in active measures could be used to re-qualify for benefit periods. This meant that some people did not come back to the labour market but moved continuously between benefits and active measures. The system was very centralised and regulated from central authorities and therefore could not make an individualised more tailored effort<sup>16</sup>.

Development in the number of people in active labour market measures followed the developments in unemployment except around 1994-1995 when there was an increase in the number of participants in active measures. This could be due to problems of starting up the new reform. This is discussed more thoroughly in part three<sup>17</sup>.

Before 1994 the insured unemployed below the age of 60 were entitled to a work offer (*arbejdstilbud*) (see below). This had to be given before the right to unemployment insurance stopped. The length of the work offer was nine months (7 months in the public sector) and normal wages were paid. Participation in a work offer could serve as re-qualification for another period of unemployment benefits.

When benefits ran out for the second time, unemployed between the age of 25 and 50 had the right to education offers (*uddannelsestilbud*) for up to 18 months with the possibility of prolongation. For unemployed below the age of 25, normal education could replace the first education offer. From January 1, 1991, unemployed without an education had the right to education offers already after 12 months of unemployment (before the first work-offer). During education, the unemployed received education benefits equivalent to unemployment benefits. After having participated in an educational measure, the unemployed has the right to two work-offers. Municipalities could offer the non-insured young unemployed (under the age of 30) jobs in municipal employment projects. The mu-

<sup>16</sup> Mærkedahl, 2000: 263

<sup>17</sup> Larsen & Langager, 1998:80



municipalities could also subsidise employment in private businesses (*løntilskudsordninger*). The state subsidised the municipal employment efforts.

Vocational training was and still is directed towards employed as well as unemployed. Participants in these measures are paid the same benefit level as unemployment benefits. Vocational training includes (among other things) specialised education of people with no education, further education of skilled workers, and introduction courses for young people. For adults between the age of 25 and 60 subsidies can be given to support extra education<sup>18</sup>.

Other measures with the aim of increasing employment also existed in the beginning of the 90s. In 1990 a special youth benefit for the 18-19-year-olds who applied for unemployment benefits was introduced. In order to qualify for unemployment benefits, these young people had to accept an offer of employment or education given by the municipality. The offer could last for up to five months. From October 1, 1991, the measure also included the 20-year-olds.

Another measure called 'rehabilitation' (*revalidering*) was and is given to unemployed who due to health -, psychiatric - or social problems have troubles holding on to jobs. The rehabilitation measure included a benefit at a level equivalent to the maximum unemployment benefit for five years and could include education, vocational training, help to become self-employed or an actual placement on the labour market. In case of placement on the labour market benefits were paid as wages or wage subsidies. The rehabilitation measure still exists.

Unemployed benefit recipients could receive a benefit, which supported self-employment (*iværksættedydelse*), which is referred to in the report as entrepreneurial benefit. Insured unemployed could receive a special benefit supporting self-employment, which was equivalent to half of the maximum unemployment benefit for up to 3 ½ years<sup>19</sup>.

People who receive social assistance because of unemployment do (normally) have a right and an obligation to participate in an offer of work or training after a certain period of unemployment. The rules vary for different age groups. For young people between 18 and 20 years, the work/ training in 1993 had to start within 2 weeks of application for assistance, for those aged 21 to 24 within 13 weeks of application. From 1995 also the non-insured unemployed above 25 years were entitled after three months of social assistance to have a tailored activity plan describing the employment aims of the social assistance recipient and which activation measures were to be initiated<sup>20</sup>. These rules have been tightened during the 1990s, especially for young people without children and no former income above 66,7% of APW level, who receive a special youth benefit, which is half the amount of the normal social assistance.

---

<sup>18</sup> Nososko, 1992, 1995

<sup>19</sup> Forsikringsoplysningen, 2001; Nososko, 1990

<sup>20</sup> Nososko 1995: 85

## The nature of the debate

By 1993 the serious unemployment problems, possibilities of circling between active and passive measures, a rigid labour market and, of course, the change of government led to discussions about how a reform of labour market policy could be made.

### Recommendations from OECD

The OECD stressed the rigidity of the Danish labour market. The OECD maintained that the Danish Labour Market Policy emphasised passive income support too much and that the active measures were disappointing due to tax requirements to the unemployed concerning availability and due to institutional rigidity of the administration of the allocation of jobs and job training possibilities. The OECD recommended the Danish government that unemployment benefits, benefit periods and the access to unemployment compensation should be reduced significantly.

In 1993 it was further recommended by the OECD to increase flexibility by loosening up job demarcation, everyone should have the opportunity of improving their qualifications and there should be a focus on actual skills rather than on educational attainments or membership of certain unions. Some also found that the difference between the lowest and the highest wages had evened out so much that it had become a problem because people with low qualifications did not have the possibility of getting a job in the lower end of the wage scale<sup>21</sup>. Besides this, OECD in 1993 recommended a more targeted and timelier delivery of assistance. This should help groups with high risks of long-term unemployment at a much earlier stage in their unemployment spell. Also OECD recommended that job training should be made in the private sector as these seemed to be more effective in letting people permanently into the labour market. Finally the OECD recommended increased support for job-rotation, where regular staff could take leave and be replaced with an unemployed person. This should also encourage the private employers to hire unemployed job seekers<sup>22</sup>.

### The domestic debate

In the beginning of the 1990s a Danish Research Unit named the Rockwool Foundation arranged a competition in order to stimulate a debate about and find some solutions to the serious Danish unemployment problem. Participants pointed at what they saw as the biggest problems and suggested solutions. There was general agreement that the system was too rigid.

The suggestions of the first prize winners<sup>23</sup> were as follows: the problems were identified as stemming from the fact that the whole Danish labour market was structured too rigidly because the unions prevented people from working more flexibly with reference to working hours. They also found that the Danish wage structure was too rigid and flat and thereby stood in the way of unemployed people who wanted to work. Furthermore, they meant that there was a problem of incentives to seek work due to high net replacement rates especially for the low-wage groups. They argued that if unemployment benefits should stay at the high level they were it would be necessary to follow the Swedish approach of strengthening demands to job search. If this model should be followed it would be necessary to make the administrative system more efficient. Especially job-centres had

---

<sup>21</sup> Mogensen, 1994: 8; F. Larsen, 1998:2

<sup>22</sup> OECD, economic survey 1993: 56

<sup>23</sup>This group consisted of Karsten Albæk, senior lecturer at the Department of Economics at Copenhagen University, Erik Strøjer Madsen, senior lecturer at the Department of Economics at Århus Business School, and Kurt Pedersen, senior lecturer at the Department for Foreign Trade, also Århus Business School.

to work better. It was argued that job centres should have a greater authority with respect to offering active measure and with respect to the unemployed. The group also stressed the need for matching the skills of the unemployed with the kind of skills in demand among employers.

The same group of researchers also suggested that there should be more awareness of the possibilities for young people. They found that there should be created more apprenticeships and places on occupational training courses for young people. In order to support the demand for labour and ensure more real work, there should be made steps to reduce employers' costs either by means of wage-subsidies or by reducing the wages for apprentices.

It was crucial to this group of researchers that better balance between supply and demand on the Danish labour market should be created. According to these researchers, this should not be done by reducing the workforce (as such an approach would only reduce employment and have no long-term effect on unemployment). The group was especially critical of the Danish unemployment benefit system and the system of costly labour market training. It recommended a bigger spread within the wage structure, bringing the modest Danish wage spread closer to that of the other OECD countries. Also it recommended a reduction in unemployment benefits. At the same time the unemployment service and its right to use sanctions should be strengthened and job training should be given a higher priority at the expense of traditional courses aimed at combating unemployment<sup>24</sup>.

The group who won the second prize<sup>25</sup> found that the Labour Market policy and the system of unemployment benefits should be freed to some extent from its distributive role, which instead should be managed by means of social and taxation policies. They also pointed to the rigid wage structure because it reduces the work opportunities for the weakest labour market groups and reduces the motivation for taking professional or educational training. They suggested a wage system based on age, giving young newcomers on the labour market the smallest wages. They suggested that such an arrangement would give the young people an opportunity for successful integration into the labour market. The minimum wage should be abolished. Instead, to prevent a great social imbalance, a tax-based minimum income should be introduced. Concerning the unemployment benefit system, the group suggested a reform for the long-term unemployed over 50 years of age creating a system of benefits outside the labour market. In contrast to the above-mentioned group, this group of researchers held that the level of the unemployment benefit should remain unaltered. Instead what they called the inertia-creating element in the system i.e. the very long period over which one may receive unemployment benefit should be reduced.

Employment and education services should according to this group be strengthened and the opportunities they give should be followed by stronger demands for geographical and occupational mobility. This could reduce passive unemployment. In order to reduce passive unemployment free access should also be given to all higher education. Instead of trying to control the educational choices of the young, the politicians should provide good opportunities for further education and re-training. Further education should be geared more precisely to individual qualifications and backgrounds<sup>26</sup>.

### The politicians

The politicians in 1993, where the minority government led by the conservatives was in power, had a reluctant approach to the advice from economists and the OECD. Especially the will to increase

---

<sup>24</sup> Mogensen, 1994: 48-52

<sup>25</sup> The authors of this paper were Peter Jensen at Department of Economics at Århus University, professor Nina Smith and Jan Beyer Schmidt-Sørensen, senior lecturer, at the Department of Economics at Århus Business School.

<sup>26</sup> Mogensen, 1994: 52-62

wage differential or reduce the unemployment benefits was small. This can to begin with be explained by the fact that the ideal of equality is a firmly established notion among the politicians and the population. In spite of the fact that income differentials had lessened during several decades there existed, among the population, the media and some researchers, a picture of a greater difference between the rich and the poor<sup>27</sup>. The unwillingness to increase income differentials and to reduce the unemployment benefit continued after the government changed in 1993, but the politicians also implemented many of the changes recommended by the economists and the OECD. The following part describes the reform process between 1994 and 2000 and in part 3 the actual development is compared with the debate and recommendations in this part.

---

<sup>27</sup> Mogensen, 1992: 15-43

## Part II

### Reform process between 1994 and 2000

In order to boost demand and economic growth, the Social democratic Government in 1994 temporarily eased the otherwise relatively tight fiscal policy and carried through a number of major reforms, including a tax reform. The Government's measures contributed to an improvement in the economy, which resulted in an increasing employment rate and a decreasing unemployment rate since the middle of the 1994<sup>28</sup>. However the Danish economy was relatively strong at the beginning of the 1990s. The low price and wage increases had strengthened the ability of Danish industry to compete abroad<sup>29</sup>.

#### *The overall aim of the labour market reform process*

A labour market reform of 1994 started out a longer process of reforms which were implemented as phases I, II and III. During the 90s a tradition of introducing and adjusting reforms in relation to the annual plan of finances has developed. The first phase of the labour market reform was put into force on January 1, 1994, the second phase began in 1996 and the final phase in 1999. Furthermore, certain adjustments of the legal framework have been necessary during the whole implementation period as a natural consequence of changing conjunctures and other influential facts.

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.*<sup>30</sup>

These priorities are still fundamental to the labour market policies of today – in spite of the changes and adjustments, which have been made since the reform process began in order to adjust to e.g. economic situations.

The reforms was directed at using active measures to create a better and more stable situation on the labour market using a principle of right and obligation to activation. Each of the three steps of the reform process has been characterised by increased use of active measures and a further limiting of benefit periods<sup>31</sup>.

---

<sup>28</sup> Arbejdsministeriet, 2001b

<sup>29</sup> Nososco, 1995: 9

<sup>30</sup> Mærkedahl, 2000: 264

<sup>31</sup> Mærkedahl 2000

The principle of right and obligation has been strengthened between 1995 and 1999 and starting from 1996 it has also included a special effort directed towards young people. The idea is that the unemployed after a period of receiving passive benefits come into an “active period” where they after 4 weeks – at the latest – have the right to get an offer of active labour market measures, which they also have the obligation to accept (this system will be described more precisely in the following). The purpose of the principle is to qualify the unemployed to re-enter into ordinary labour market and to motivate the unemployed to seek work actively by themselves<sup>32</sup>.

Here follows a chronological statement of the reforms process between 1994 and 1999.

### ***The Labour market reform of 1994***

#### Eligibility criteria

The 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. Before the reform it was possible to receive unemployment benefits for up to nine years when use was made of the possibility of re-qualifying for benefits through participation in active measures. From 1994 only ordinary unsubsidised work could make a person eligible for benefits. 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<sup>33</sup>.

#### The Active Approach and The Individual Action plans

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 can contain or make use of the following instruments:

Information and guidance, subsidized employment (job training) which may be offered with public or private employers, individual (specialized) job training for those unemployed persons who cannot be placed in job training in ordinary work places, Pool jobs (subsidized employment for unemployed persons who are qualified for unemployment benefits). Pool jobs are jobs in the public sector of up to three years duration for long-term unemployed, education/training in the ordinary education/training system or as part of a specially organised activity adapted to the background of the unemployed persons concerned, job rotation where the leave taken by an employed person is combined with the recruitment of an unemployed person for job training, special tailor-made training activities and a combination of the above mentioned instruments. The individual action plan should

---

<sup>32</sup> Arbejdsministeriet, 2001b

<sup>33</sup> Mærkedahl, 2000: 264; Mogensen, 1995: 38-39

assure that the individual unemployed is taken into account as an active partner and that efforts for this person are tailor made<sup>34</sup>.

The reform also resulted in more flexible job training and education possibilities for the unemployed<sup>35</sup>.

With the tax reform of 1994 a new labour market contribution was introduced. The labour market contribution started at 5% of the gross income and increased gradually to 8% in 1998. All members of the work force except those receiving unemployment benefits pay it. In connection with the tax reform, social pensions and the social assistance were changed in 1994 from being more or less tax-free benefits to being taxable gross benefits. The benefit level for social assistance was increased in 1994 in order to minimise the number of marginalised people among recipients of social assistance<sup>36</sup>.

### ***Adjustments of 1995: “Overhaul” of the labour market reform***

The reform of 1994 was adjusted in 1995 to provide more people especially young people, more quickly with jobs and particularly training and education. 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. This was not relevant during the rising unemployment in the 1980s, when the task of the unemployment system mainly was to secure a decent level of income for the unemployed. The rules governing both unemployment insurance benefits and social assistance were therefore tightened<sup>37</sup>.

A right and an obligation to full-time activation after 4 years of unemployment was introduced and the availability criteria was tightened.

The whole framework of the active labour market policies consisted of a seven-year period in which the first four years were a benefit period where depending on guidelines set out in the specific region (a needs-oriented activation could take place). After these four years a so-called ‘active period’ followed for three years. In this period there was a right and obligation to participate in active measures for as much as full time. This does not mean that the unemployed is constantly in activation during these three years, but that the possibility of being in it is there. It all depends on regional needs and individual action plans.

Finally the rules of leave measures were adjusted and the benefit for parental leave and sabbatical leave was lowered. These changes were implemented in the spring of 1995 and during the summer the accession of newcomers to sabbatical leave especially but also parental leave decreased while the leave for vocational training became still more popular<sup>38</sup>.

### ***Changes of 1996: the second phase of the labour market reform***

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

---

<sup>34</sup> F. Larsen, 2000: 4-5

<sup>35</sup> Arbejdsministeriet, 2001b

<sup>36</sup> Nososko 1996 and 1997

<sup>37</sup> Arbejdsministeriet, 2001b

<sup>38</sup> Arbejdsministeriet, 2001b; Mærkedahl, 2000: 264

the periods where the unemployed received passive support and to prompt the unemployed to participate in vocational training.

The 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. After this period social assistance can be received. The work condition was tightened from 26 weeks of ordinary work within the last three years to 52 weeks of ordinary work within three years<sup>39</sup>.

### ***The plan of Finance act of 1997 and 1998***

The unemployment rate continued to fall and the focus of the labour market policy changed in order to prevent a lack of employment and to secure the needed demand of labour.

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<sup>40</sup>.
- The rules for unemployed people's use of vocational training were adjusted. The job centre's (AF) approval of vocational leave depended of the possibility to advise jobs.

### ***The plan of Finance Act in 1999: the third stage of the reform process***

In 1999 the law of finances brought some changes. 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.

After this, the activation period for the unemployed already 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.

The general aim was to make the effort towards the unemployed faster and more individualised. The focus should be directed towards the weakest unemployed. The employment office should arrange interviews with the unemployed (*Visitationssamtaler*), which should take place after 3 months of unemployment at the latest. The unemployed must be available for the labour market after 3 months of unemployment. Efforts were also put into force to support immigrants with insufficient proficiency in Danish language because of a significantly higher unemployment rate among

---

<sup>39</sup> Nososko1996: 9; Mærkedahl, 2000: 264

<sup>40</sup> People with a daily transport of more than 24 km receive a transport allowance of DKR 1,44 (EUR 0,193) per kilometre. For people with a daily transport of more than 100km the transport allowance is DKR 0,72 (EUR: 0,096).



immigrants than among non-immigrants. This goes especially for immigrants from non-EU countries as in 1999 unemployment was 24.6% among people from non-EU countries compared to 6.2% among immigrants from EU countries<sup>41</sup>.

An expansion of the trainee system was also carried out: The scheme of adult trainees was extended from 2000 to 5000 places.

### ***The Plan of Finance Act of 2000***

In 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 ‘very’ early retirement scheme (*førtidspension*). The service jobs are of unlimited duration and state subsidised. Initial results of this measure are very modest. Between 6,500 and 10,000 individuals are expected to be employed in service-jobs by the end of 2001, but by June 2001 only 1,608 persons were in service-jobs<sup>42</sup>. 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<sup>43</sup>.

### ***The older part of the workforce***

Facing a potential lack of labour power due to the expected development of the population with a 30% increase of above 59-year-olds, an increase of about 2% for 0-18-year-olds and a 3% increase for the 19-59-year-olds, from 1998 to 2020. This means that a smaller proportion of the population will have to support a very bigger proportion of the population. Other ways of projecting the size of the labour force also point to this problem<sup>44</sup>.

There are special rules for the duration of the benefit period for elderly unemployed. For the 55-year-olds it is prolonged, for the 60-year-olds it is shortened. Phase two of the ‘very’ early retirement scheme (*overgangsydelse*) was introduced in 1994. The scheme was initially put into force in 1992 when it was made possible for long-term unemployed to retire already at the age of 55. Phase 2 lowered the limit so that the 50-59-year-olds were allowed to keep their rights to unemployment insurance benefits until they would be eligible for the ordinary early retirement (*efterløn*) at the age of 60, which is also managed through the unemployment insurance system. This meant that benefit periods could potentially last for 7 years (insurance) plus 10 years (extension for 50-59-year-olds). The 50-59-year-olds were not included in the rights and obligations to participate in active measures until 1996 when the ‘very’ early retirement scheme was closed for new entrants. From 1999 it is no longer possible for people who become unemployed before they reach 50 years of age to extend their benefit period. However, the fact that rights and obligations to participation in active measures were extended to include the elderly in 1996 modifies this interpretation. In 2000 the 60-year-olds also got the right and obligation to activation. The active period for this age group begins after 6 months of unemployment. Those over the age of 65 have a maximum benefit period of 2 ½ years<sup>45</sup>.

---

<sup>41</sup> Jørgensen & Pedersen, 2000: 43-52

<sup>42</sup> Homepage of the Danish Ministry of Labour; Homepage of Reform Monitor

<sup>43</sup> Arbejdsministeriet, 2000

<sup>44</sup> Hansen, 2001

<sup>45</sup> Hansen, 2001: 9-10

**Update of the changes of the Danish (passive) unemployment system in the 1990s**

Table 9 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 1994 could be regained by attending in active measures making it possible to circulate between active and passive measures. Also it is important to be aware of that unemployed can receive supplement for children through the housing benefit system and might be offered a free place in the child-care institution. However these are means tested benefits, which hold for everybody with small incomes.

**Table 9: The development of the Danish unemployment insurance system during the 1990s**

	1990	1994	1995	1996	1997	1998	1999
<i>Insured individuals</i>							
<i>Age limit</i>	17-66 years	17-66 years	As 1994	19-66 years	As in 1996	As in 1996	As in 1996
<i>Waiting days</i>	No	No	No	No	No	No	No
<i>Maximum number of benefit days</i>	780 within 3 years (6 benefit days pr. week in 2½ years)	1820 within 9 years (5 benefit days pr week for 7 years)	As 1994	1560 within 8 years (5 benefit days pr. week in 6 years)	1300 within 7 years (5 benefit days pr week in 5 years)	As in 1997	1235 in 6 ¾ years (5 benefit days per week for 4 ¾ years)
<i>Conditions for (re)gaining benefits</i>		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.  The right to benefit can only be regained through ordinary work	As 1994	As 1994	The conditions for regaining benefits are tightened To 52 weeks of ordinary work within 3 years	As 1997	As 1997
<i>Is the benefit taxable?</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Supplement for children</i>	No	No	No	No	No	No	No

The level of compensation has not changed much during the 1990s as can be seen in table 10. In 1994 the maximum cap was increased given somewhat better compensation rates to the higher income groups. However eligibility criteria was restricted.

**Table 10: Benefit-levels, Denmark 1994-2001**

Compensation systems, Max./Min. Compensation <sup>1</sup>				
Year	Min. benefit level, daily (Dkr)	Max. benefit level, Daily (Unemployment Insurance benefit) (Dkr)	Cap: Maximum annual income used as calculation basis (Dkr)	Level of Compensation (%)
1994	-	509, 5 days per week	154738	90
1995	-	511, 5 days per week	156995	90
1996	429	523, 5 days per week	162394	90
1997	431	525, 5 days per week	164778	90
1998	441	538, 5 days per week	168860	90
1999	453	552, 5 days per week	173333	90
2000	467	570, 5 days per week	178907	90
2001	482	588, 5 days per week	184638	90

1) 100 DKR= 13,4 EUR

Source: Økonomiministeriet 2001; Forsikringsoplysningen 1990-2000, Nososco 1990-1999

### ***The balance between active and passive measures***

Looking at the number of people who have been in activation during the 90s – especially in comparison to earlier decades – it is obvious that there has been a direct political intention to prioritise the active line. The number of participants in active measures has generally been twice as high as in the 80s. Also from 1995 to 1999 there has been an increase (table 11). The percentage of all the unemployed participating in active labour market measures increased from 1996 to 1998 from 26% to 32% (table 11 for percentages of the entire labour force). For long-term unemployed the percentage was significantly higher. These numbers must be seen in the light of the general decrease in unemployment<sup>46</sup>.

**Table 11: Number of People in active measures, Denmark 1995-1999**

	1995	1996	1997	1998	1999
<i>Number of people in active measures during the year</i>	258392	261689	248421	253108	254668
<i>Number of people in active measures at the time of 'counting'</i>	110935	106200	100387	100484	100770
<i>Number of people in active measures, in percent of labour force at the time of 'counting'</i>	4	4	3,6	3,6	3,6

Source: NOSOSCO

The active measures have in general been targeted at those with the longest unemployment spells. For short-term unemployed the percentage participating in active labour market measures has increased illustrating that the unemployment for this group has gone down at the same time as the active effort has increased or remained stable. Since 1994 there has also been a tendency of longer periods of participation in active measures<sup>47</sup>.

<sup>46</sup> Arbejdsministeriet, 2001b

<sup>47</sup> Arbejdsministeriet, 2001b; Jørgensen & Pedersen, 2000: 43-52

### The composition of the active labour market measures

Regional prioritising has meant that vocational training since the beginning of the reform period has been the most important instrument of active labour market measures. At the start of the reforms in 1994 the most common instrument of active labour market measures was job training in the public sector. Vocational training formed 1/5 of the effort and private job training and entrepreneurial support also formed 1/5.

“Pool jobs”(puljejobs) have replaced public job training. 90% financed of the pool jobs are financed by The Job Centre (AF) and 10% by the employer. Public employers can set them up in public areas, or areas, which are at least 50% publicly financed. The fund jobs must not replace ordinary jobs but the pool job can continue for up to 3 years. The wage must equal but cannot exceed the maximum unemployment insurance benefit. “Pool jobs” are (in contrast to before the reform) voluntary for the municipalities. A point of importance is that the public institutions and the unemployed have a right to fund jobs if they have found each other themselves. The job centres do not have to be involved (www.am.dk).

The number of people in public job training has decreased since 1995, especially since 1998. Half of the private job training has been replaced by regular jobs. Under the changed market conditions it is not necessary in the job creating process. The entrepreneurial support was abolished in 1997/98 and was in 1999 only received by half as many. When these people are no longer entitled to the benefit the entrepreneurial benefit will stop.

Unemployed under active labour market measures make up a greater proportion of the people on “Leave for vocational training”. This makes it easier to target the ‘Leave for vocational training’ towards sectors, which lack employment<sup>48</sup>.

### ***Changes to the organisational basis of the system: labour market policies based on network coordination***

The organisation of the system was decentralised in 1994, and the substance of the labour policy was now made as close to the individual and the enterprises as possible. The Regional Labour Market Councils (*Regionale Arbejdsmarkedsråd (RAR)*) prioritised the effort locally. The state sets out the economic framework and the basic rules. The local job centre has an obligation to represent the interests of the society, e.g. when making the individual action plans. This means that in situations where the wishes of the individual do not fit the labour market, the labour market is given priority. Efforts to help an unemployed during the period before the activation period are targeted at the groups who run the greatest risk of long-term unemployment by the RAR.

The new institutional set-up of the labour market steering system strengthened the role of the social partners, especially on the regional level. This kind of restructuring is in contrast with a general trend for decline in corporatism in the Danish system, which can also be seen on an international level<sup>49</sup>. The reason why social corporatism, in spite of the decline, is still a very important factor in the Danish unemployment insurance system can for some part be seen in the fact that the connec-

---

<sup>48</sup> Arbejdsministeriet 2001b

<sup>49</sup> Blom-Hansen in Scandinavian Political Studies, Vol. 23 – No.2, 2000: 171

tion between the biggest Labour unions (LO) and the Social Democratic party has been tight. At the present the government has changed. The liberal party 'Venstre', which from November 2001 heads the government has given a notice of an incipient decline in corporatism by introducing national unemployment funds, which should be interdisciplinary and independent of the unions.

The hitherto great involvement of the social partners indicates the fact that the Danish labour market policy is highly politicised. The reform also included a significant regionalisation of competence in connection to the effort directed at the unemployed. 14 regional labour market councils were established. The labour market organisations (employees and employers) hold 2/3 of the seats in these councils and the regional authorities (county and municipalities) hold the rest. The regional labour market councils set out regional strategies: they make priorities and make plans according to the specific regional needs and what types of activation should be offered in the specific regions (it is not possible for all regions to offer the whole range of active measures). The local employment offices (the public employment service) should follow the strategies set out by the regional councils. This means that the role and function of the employment offices has been fundamentally changed because they now follow guidelines based on issues prevailing in the given context instead of just following automatic rules. It is and was absolutely crucial to the implementation of this new structure that co-ordination between regional enterprises, regional authorities (counties), local authorities (municipalities), unemployment offices (the social insurance system) and the educational institutions works efficiently<sup>50</sup>.

### *The effort towards young people*

In 1994 72,4% of the young unemployed under 25 years did not have any vocationally qualifying education/ training. The effort to reduce unemployment among young people has therefore concentrated on improving the incentives to begin training<sup>51</sup>.

Before 1993 young people under the age of 25 years with unemployment insurance had the right to a temporary job offer of 9 months after 1 year of unemployment.

By this the unemployed could re-earn the right to benefits. For other age groups a job-offer came after 2 years of unemployment. Young people with insurance had the same rights to unemployment benefit as other age groups.

In 1994 young people with insurance got a right to a training allowance and a right and an obligation to begin a training course of at least 18 months duration. The training should be offered no later than 2 years after the unemployment period started. During the training people under 25 years are only entitled to half the benefit in order to make the benefit equivalent to the general State Educational Support (SU).

For non-insured young unemployed, who as mentioned can receive social assistance, a youth allowance scheme in 1990 introduced obligatory activation of 18-19 year-olds for at least 5 months with a visitation period of 14 days. The age group for this scheme was extended in 1992 to include 18-24 year-olds and the visitation period was extended. Until 1996 where the latest amendments to the reforms of 1994 became effective, the local authorities were obliged to activate all young people after 3 months out of work. The obligatory activation was to last 6 months, after which the person

---

<sup>50</sup> F. Larsen, 1998:5-6

<sup>51</sup> TemaNord 1996: 28

was entitled to an activation offer<sup>52</sup>. With the reform of 1994 the activation offer to the non-insured was extended from 5/6 months to 18 months equal to the young people with insurance. In 1998 the activation offer was also given to the young people on social assistance who had other social problems than unemployment. At this time the age limit for receiving the quick activation offer (the above) was raised from 25 years to 30 years.

In 1996 the youth effort was introduced. The youth effort should create a better connection between rights and obligations in the unemployment system. Young people under the age of 25 without any higher education or training received the right and the obligation to an 18-month training course after 6 months of unemployment within 9 months. The level of benefit (unemployment insurance) during the training courses was reduced by 50% in order to make it equivalent to the benefit for people under education<sup>53</sup>. Also the possibilities for people with only short-term training (1-2 years) to participate in supplementary training courses were improved.

In 1999 the youth effort was expanded to include young people with qualifications. Since then everyone below 25 years of age have had the right and obligation to participate in active measures after 6 months of unemployment<sup>54</sup>.

### *The unemployment situation in the last half part of the 1990s*

After the reform period started in 1994 the unemployment rate began to decrease (table 12). 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 13). The labour force participation rate has decreased continually for men during the 90s (table 12). This tendency has actually prevailed for several decades. The labour force participation rate for men between 55 and 64 years of age has been decreased very drastic (table 13).

---

<sup>52</sup> TemaNord 1996: 32

<sup>53</sup> Mærkedahl, 2000: 264

<sup>54</sup> Arbejdsministeriet, 2001b

**Table 12: Unemployment by sex, Persons aged 16-64 years, Denmark 1994-1999**

	1994	1995	1996	1997	1998	1999
<b>Total</b>						
<i>Employment/population ratio</i>	72.4	73.9	74.0	75.4	75.3	76.5
<i>Labour force participation rate</i>	78.8	79.5	79.5	79.8	79.3	80.6
<i>Unemployment rate (%of civilian labour force)</i>	8.1	7.1	7.0	6.2	5.5	5.6
<b>Men</b>						
<i>Unemployment rate (%of civilian labour force)</i>	7.3	6.2	5.9	5.0	4.5	4.8
<b>Women</b>						
<i>Unemployment rate (%of civilian labour force)</i>	9.1	8.2	8.3	7.6	6.6	6.6

Source: OECD Employment Outlook; OECD Labour Force Statistics 1979-1999

**Table 13: Unemployment by age, Denmark 1995-1999**

	1995			1996			1997			1998			1999		
<i>Age</i>	15-24	25-54	55-64	15-24	25-54	55-64	15-24	25-54	55-64	15-24	25-54	55-64	15-24	25-54	55-64
<b>Total</b>															
<i>Unemployment rates</i>	9.9	6.2	8.0	10.6	6.0	6.1	8.1	4.8	5.1	7.2	4.6	5.1	10.0	4.3	4.2
<i>Labour force participation rates</i>	73.2	87.1	53.6	73.8	87.5	50.6	74.2	87.0	54.1	71.6	87.5	53.1	73.3	88.2	56.6
<i>Employment/population ratios</i>	65.9	81.7	49.3	66.0	82.2	47.5	68.2	82.8	51.4	66.4	83.4	80.5	66.0	84.4	54.2

Source: OECD Employment Outlook

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 scheme (*efterløn*), which was introduced in 1979<sup>55 56</sup>.

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-olds people on a

<sup>55</sup> 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).

<sup>56</sup> Hansen, 2001: 2-4; Jørgensen & Pedersen, 2000: 43-52

very early retirement scheme (*overgangsydelse*)<sup>57</sup>. The rising number of people on leave and transitional allowance meant that the total number receiving benefits from the state in spite of the decreasing unemployment rate increased from 1993 to 1995 by approx. 40,000<sup>58</sup>.

Long-term unemployment has reduced dramatically during the last part of the 90s (table 14). 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% of the labour force were in active measures at the time of counting, in 1999 3.6% (table 14). Actually there are indications of a growth in the group of marginalized people among the 50-59-year-olds during recent years<sup>59</sup>.

**Table 14: Long term unemployment as a percentage of unemployment, Denmark 1994, 1996 and 1999**

	1994		1996		1999	
	<i>6 months and over</i>	<i>12 months and over</i>	<i>6 months and over</i>	<i>12 months and over</i>	<i>6 months and over</i>	<i>12 months and over</i>
<b>Both Sexes</b>	54.0	32.1	44.4	26.5	38.5	20.5
<b>Men</b>	52.1	31.9	44.2	28.1	38.6	20.9
<b>Women</b>	55.8	32.4	44.6	25.3	38.5	20.1

Source: OECD Employment Outlook

The unemployment rate among the non-insured has been lower than among the insured. This should, however, be seen in the light of the fact that the group of uninsured consists of people who are in such a secure position on the labour market that their risk of unemployment is very low<sup>60</sup>.

**Table 15: Number of whole-year recipients (thousands), Denmark 1995-1999**

<i>Year</i>	<i>Unemployment insurance</i>	<i>Social Assistance</i>
1995	233	120
1996	196	117
1997	173	117
1998	146	114
1999	126	115

Source: Statistisk tiårsoversigt 2001

### ***Net replacement rates and Income packaging***

In 1999 the unemployment insurance system provided a maximum compensation of 90% of former income with a top ceiling at 2,760 DKR (298 EUR) per week. The low cap means that altogether the lower income groups are relatively better compensated than the higher income groups but the compensation rates also vary between different family types. As the level of unemployment benefits has not changed much during the 1990s the net replacement rates has not changed much during the 1990s but the variation between the replacement rates in the initial phase of the unemployment period and a after long period of unemployment and among different family types is shown in table 16 for 4 income groups. Because of, however, a general increase in the wages in the last half part of the 1990s the replacement rates have decreased slightly. The net replacement rates for a single unemployed insured person with a former income at APW level have therefore decreased from 65,8% in

<sup>57</sup> Arbejdsministeriet, 2001b

<sup>58</sup> Nososko, 1996; 1997

<sup>59</sup> Hansen, 2001: 2-3; Jørgensen & Pedersen, 2000: 43-52

<sup>60</sup> Jørgensen & Pedersen, 2000: 43-52



1994 to 61,4% in 1999. For a single unemployed non-insured person the replacement rates have dropped from 38.6 to 40.9%<sup>61</sup>. These numbers differ from the numbers in table 16 because the OECD numbers include the housing benefits.

For unemployed with a former income at APW level, couples with children are better compensated than other family types and singles are relatively bad compensated especially after long periods of unemployment. This happens because families receive family benefits and because the housing benefit increases for each child in the family (up to 4 children) together with a low maximum ceiling for housing benefits for singles (table 16).

A couple with two children with a former income at APW level, who are long term unemployed, is better compensated than the same family type with a former income at 66,7% of the APW level, but overall the low income groups have relatively high compensation rates though not as high as e.g. Sweden. Opposite Sweden lone parents in Denmark have relatively low compensation rates especially for unemployed with a former income at APW level (table 16).

In both income groups singles and lone parents with 2 children have lower replacement rates after long periods of unemployment. This is also the case for couples with 2 children with a former income at 66,7% of APW level. All other groups are better compensated after long periods of unemployment than in the initial phase of unemployment (table 16).

**Table 16: Net replacement rates for four family types at two earnings levels, Denmark<sup>62</sup>**

	APW level				66,7% of APW level			
	Single %	Married couple %	Couple 2 children %	Lone parent 2 children %	Single %	Married couple %	Couple 2 children %	Lone parent 2 children %
First month of benefit receipt	62	67	77	75	89	94	95	89
Long-term benefit recipients <sup>63</sup>	48	67	97	70	67	94	92	82

Source: OECD 1999

Table 17 shows the composition of the income for a single and a one-earner couple with two children in the initial phase of unemployment and after 60 months of unemployment. It is important to remember that social assistance (*kontanthjælp*) in Denmark is given only to unemployed who are available for work and is taxed as income. Table 17 gives an overview of the composition of the unemployed persons income but cannot be trusted totally. For example one-earner couples with children do certainly receive a housing benefit together with the social assistance and the compensation degree therefore is probably even higher.

<sup>61</sup> Hansen, 2001b: 8, 9

<sup>62</sup> It is assumed that the worker is 40 years old and has a 22-year long record of uninterrupted employment. Childcare benefits are not included.

<sup>63</sup> It is assumed that the household has first claimed benefits 60 months previously. Insurance benefits have by then been exhausted and the net replacement rates are calculated on the base of social assistance, family and housing benefits.

**Table 17: Composition of the net benefit income of a single and a one-earner couple with two children in the initial phase of the unemployment and after at least 60 months of unemployment, Denmark.**

	Income components						Net incomes	
	<i>Unemployment insurance</i>	<i>Unemployment assistance</i>	<i>Social assistance</i>	<i>Family benefits</i>	<i>Housing benefits</i>	<i>Income taxes</i>	<i>Out of work</i>	<i>In work</i>
<i>Unemployed single in the initial phase of benefit receipt</i>	152	0	0	0	0	-52	100	161
<i>One-earner couple with two children in the initial phase of benefit receipt</i>	98	0	0	14	12	-24	100	132
<i>Single long-term benefit recipient</i>	0	0	122	0	10	-32	100	210
<i>Long-term benefit recipient one-earner couple with two children</i>	0	0	127	11	0	-38	100	105

Source: OECD 1999

Young people who are newcomers to the Labour market and report themselves as unemployed get a special low benefit. This gives them fairly low replacement rates as can be seen in table 18. This is part of the special youth effort introduced in 1996. Young people with no training and no children to provide for, who have no right to unemployment insurance, do only get 50% of the social assistance. This was done in order to make it equivalent to the benefit for people under education<sup>64</sup>. As other people with low incomes they can also get special assistance such as housing benefits.

**Table 18: Replacement rates for young single unemployed people, Denmark**

APW level		66.7% of APW level	
<i>Initial</i>	<i>Long-term</i>	<i>Initial</i>	<i>Long-term</i>
37	37	52	52

Source: OECD: Benefit Systems and Work Incentives

Compared with most countries in Europe, young unemployed in Denmark are fairly well compensated. Unlike most Central European and Southern European countries most young unemployed live by themselves and 40% of young unemployed between 20 and 29 even have children. However it must be remembered that young people with children are compensated as other age groups and receive additional benefits like housing benefits and family benefits. The welfare state benefit is therefore enough to live on even for young people entering the labour market for the first time. In spite of these relatively good replacement rates for young unemployed, unemployment among the young in Denmark is not higher or of longer duration than in e.g. Italy, where the compensation level is much lower. The high compensation rates for young unemployed people do not necessarily create negative incentives to seek work<sup>65</sup>.

<sup>64</sup> Mærkedahl, 2000: 264

<sup>65</sup> Bison 2000: 75, 77, 78

## Part III

### Update

#### *Why were certain reforms adopted instead of others*

It is fairly remarkable that the Danish Government to some extent took more or less the opposite path than that recommended by the OECD when trying to solve the problems of unemployment. The OECD pointed at the benefit levels as being too high, but in an international perspective, the passive measures remained generous<sup>66</sup>. This is, however, important to hold up against the tighter restrictions on eligibility criteria, which have been introduced from 1994 and onwards. There have been made demands of participation in active measures, periods have gradually been shortened. Decentralisation of the labour market administration and stricter eligibility criteria were used as alternatives to lowering the benefits. This was also part of the recommendations of OECD. The OECD also recommended job-rotation, which was implemented in 1994 but gradually abolished when the unemployment rate began to decrease. The OECD recommendations were followed to some part but the obligation for the employer to employ an unemployed person instead of the leave taker was not carried through. OECD also recommended that the job demarcation was loosened in order to create greater occupational mobility. The reason why this was not carried through might be explained by the great power of the social organisations which fight for their right to keep occupational areas restricted for special occupational groups.

Considering the recommendations of the participants in the competition arranged by the Rockwool Foundation none of the groups' recommendations have been followed completely but elements of their proposals are integrated in the labour market reforms. The recommendations of spreading the working hours of abolishing the minimum wage and create bigger wage differentials have not been followed. This can in part be explained by a general ideal of equality among. The political will to such reforms was very little.

However some tax regulations in the last part of the 90s have taken small steps in the direction of increasing income differences, but this has, however, not been of very big significance. This means that there still is a problem of incentives in the Danish unemployment benefit system, however, the extended use of active measures and the tightened eligibility criteria seem to have had an effect on the unemployment rate.

In the unemployment insurance system the politicians chose to follow the Swedish approach and kept the high compensation-rates while at the same time strengthening the demands of job search and reducing the period over, which one may receive unemployment benefits. The recommendations concerning the job-centres were also followed to some extent. By decentralizing the job-centres the authority of these was expanded. This also helped to create a better match between employers' and employees' needs and qualifications.

Concerning the young people the recommendations of the prizewinners of the Rockwool foundation's competition were followed in the way that more apprenticeships and places on occupational training courses was followed but the special introduction payment on the labour market was not carried through. Instead the young people were given a lower insurance benefit and lower social

---

<sup>66</sup> F.Larsen, 1998: 2

assistance in order to increase their job-seeking effort and, more important, in order to take up training. It is remarkable that the mentioned ideal of equality did not include the young people. This might be explained by the fact that the focus concerning the young people was on creating incentives to take up training and it was said by both the left- and right- wing parties in the parliament that the unemployment benefits created negative incentives to take up training. The lower benefits were therefore sold to the population with the argument that it was for the better sake of the young if they took up education instead of staying in low paid jobs with high risks of unemployment. Furthermore it was a general opinion that the young people were not 'deserving poor' and could therefore be treated different from the rest<sup>67</sup>.

### *The reforms evaluated by the Danish Ministry of Labour*

#### Effects of the activation effort

In March 2000 the Danish Ministry of Labour published an evaluation of the activation effort. Until this time the focus had been on whether a person has found a job in a certain period after participation in the active measure or not. The problem with the usual way of measuring was that it implies a risk of focussing on a type of active effort, which favours 'strong' unemployed because these are better at finding jobs and forgets those who have the biggest difficulties with breaking their unemployment spell. The new way of measuring compares the effect of active measures on the probability that an unemployed finds work to a situation where the unemployed has not participated in an active measure.

Three types of effects of the activation efforts were considered:

- The upgrading of qualifications effect (reflecting how the active measures contribute to qualifications)
- The motivation effect (reflecting how active measures motivate people to look for jobs. This effect is typically seen in the period prior to the right and duty to activation)
- The retention effect (reflecting how participating in active measures is hindering the unemployed in getting jobs on the regular labour market)

68

Measurements of the upgrading of qualification effect show that active measures have a positive effect. There is typically a reduction of 15% in public expenditure as a consequence of activation. It seems that private job training has significantly better effects than public job training and education. However training measures might have become better recently due to better targeting of the measures.

The right and duty to participate in active measures has among other things been introduced in order to motivate unemployed to search for jobs. It is found that there is a positive effect on job search activity, and that this has especially been prevalent among those who have been influenced by the changes in 1998, after which the active period began earlier in the employment spell. It seems that the prospect of the right and duty to activation motivates people to search for jobs. There also seems to be a positive effect of the youth measures, which in 1997 gave young persons without formal qualifications the right and duty to a training offer after 6 months of unemployment. Some of the good results on the motivation effect can be ascribed to the generally favourable economic condi-

---

<sup>67</sup> Conversation with Jon Kvist, november 2001

<sup>68</sup> Mærkedahl, 2000

tion, however, the point in time, where people find employment, seems to be just before the right and duty to activation begins.

The report shows that there is a tendency that the rate of entry into regular employment falls during activation. This effect is most significant among the strongest groups on the labour market and this emphasises that there is a need for targeting the activation measures to those who are most in need of them instead of keeping the strong unemployed group who can find jobs on the regular labour market in active measures outside the labour market<sup>69</sup>.

#### Youth effort evaluated

The effect on motivation is the same as mentioned in the general program but is clearer – partly because the benefit for this group in the “active period” is halved and because the possibilities for employment and training are better for young people. Surveys show that the youth effort has motivated the young people to find employment or training place themselves before the youth effort starts.

#### Costs

The active effort has naturally included that fairly big amounts have been set-aside on the national budget. Even though unemployment has been falling, there has been spent more and more money on active measures after the reforms. However, if the unemployed were not in active measures they would be receiving other benefits and it seems that the effects of the active measures are good on search activities and structural unemployment so the active measures are worth the efforts<sup>70</sup>. It is remarkable that the big fall on the unemployment level has occurred without significant inflation problems<sup>71</sup>.

A summing up of conclusions from the report from the Danish Ministry of Labour is as follows:

- The right and duty to participate in active measures has a motivating effect on the job-search activity of the unemployed and thereby supports employment of more unemployed also before the offer of participation in an active measure is given.
- Active measures generally increase qualifications among unemployed so that the possibility of employment is increased by participation in an active measure.
- Participation in active measures early in the unemployment spell includes a risk of keeping people in active measures instead of ordinary employment. This is particularly prevailing among groups of unemployed who also have problems with finding employment even without participation in active measures.
- The big economic resources, which have been invested in the active labour market policy, have through a reduction of the structural unemployment had a positive influence on the public finances on a short term and on a long-term basis.

---

<sup>69</sup> Mærkedahl, 2000; Arbejdsministeriet, 2000

<sup>70</sup> Mærkedahl, 2000; Arbejdsministeriet, 2000

<sup>71</sup> F. Larsen, 1998: 2

- A result of the active strategy has been that the number of people in the marginal group (of which the main part are insured unemployed or people in active measures) is half as big as in 1993.

72

All in all, one can say that these results are positive. However, there are discussions about the statistical considerations when people in active measures are not counting as part of the unemployed although they are in fact still part of the labour force and searching for jobs.

### ***The assessment of the success of the reforms in terms of improving employability***

If we consider questions of flexibility, the restructuring and decentralisation of the system was targeted at solving problems of rigidity. However, this effort was not done without problems. The adjustment and change of the system was not very easy to carry out quite as intended. There was an experience of difficulty in terms of adjusting administrative systems to new reforms and political intentions – the lesson seems to be that the changes were implemented too rapidly. It was difficult for the Regional and local authorities to start to formulate strategic policies from one day to another although they were very motivated for the change. The employment service (*arbejdsformidlingen*), which is connected to the state, tended to hang on to its bureaucratic structure and also hold on to the central control. This has led to tension between the employment service, who should implement new guidelines in the administration, and the regional labour market council, which formulates the policy effort in the given region. The state employment service tended to doubt whether the regional councils were able to form policies, which were in line with intentions from central level and had difficulty in changing its role from one of setting rules to relying on judgements<sup>73</sup>.

### Discussions about the right and duty to participate in active measures

The number of people who leave the unemployment system (to employment) increases every year due to the better possibilities of finding employment. The number of people who leave the unemployment system is higher among those who have been unemployed longer than 2 years than for people with shorter unemployment spells. This in connection to the results of the above mentioned report from the Danish Ministry of Labour could indicate that the principle of right and obligation to activation has a positive effect. However, there is also a general debate running about whether or not it is reasonable to talk about a ‘duty’ to participate in active measures. Examples of people with a lot of qualifications in a certain area who are forced to occupy themselves with things far away from their usual sphere of interest and qualifications underline the necessity of targeting the active measures to those who are most in need of them and to make a big variety of offers. It also underlines the necessity of coordinating the unemployment benefit system flexibly with the system of active measures. It might also in some instances be difficult for municipalities to offer a satisfactory variety of active measures<sup>74</sup>.

Recent debate has also concerned the fact that the number of members of unemployment insurance funds is falling. It is thought to have a connection with the high membership fees in comparison to

---

<sup>72</sup> Arbejdsministeriet, 2000:3

<sup>73</sup> F. Larsen, 1998: 13

<sup>74</sup> Arbejdsministeriet, 2001b

the received compensation rates. The number of members of insurance funds has decreased from 79.5% of the labour force in 1995 to 78.4% of the labour force in 2000.

### *Assessing the Capacity of Danish Institutions for evaluating success or failure of reform initiatives*

Many institutions in Denmark evaluate the Danish labour market. The government has their evaluation institutes, which might be politically biased but these are supplemented by e.g. the mentioned Rock wool Foundation, which is a private research institute and The Danish National Institute of Social Research, which is an independent research institute but mainly financed publicly. The research institutes evaluate both top down and bottom up, but might not always coordinate the two perspectives. The labour market Agency (*Arbejdsmarkedsstyrelsen*), an organ under the Ministry of Labour collects information from 14 regional labour market councils (*Arbejdsmarkedsråd*) about the situation on the labour market. The possibilities for collecting information from different areas on the labour market are generally good.

### *Future challenges*

It is a declared goal of the Danish government to make the labour market able to include as many people as possible including people with weaker qualifications than average. The labour market should be made attractive for people over 50 years of age and immigrants should be better integrated on the labour market. There is still a big marginal group of people who have been unemployed in active measures or on educational leave more than 80 % of the time during the last three years. This marginal group has been reduced from 130,000 people in 1994 to 65,000 people in 1999, however, considering the fact that the economic situation is fairly good this group is still too big. Again, it should be underlined that there is still a need of targeting efforts to those most needy of them, namely the exposed, marginal groups. This requires an effective cooperation between the different regional and local authorities<sup>75</sup>.

The necessity of making the Danish labour market policy flexible according to changes in the economic situation and that the quality of the active measures should be improved<sup>76</sup>.

The government's goals are among other things to facilitate an increasing level of employment and to secure a higher level of education in order to increase flexibility on the labour market. It can be said to be a big challenge to increase employment at this point in time because the employment rate is already high and because the amount of people in the working age is stagnating. The Government intends to hold on to and improve the line of labour market policy, which is followed now<sup>77</sup>.

---

<sup>75</sup> Arbejdsministeriet, 2000, Mærkedahl, 2000; Regeringen, 2001

<sup>76</sup> Mærkedahl, 2000

<sup>77</sup> Regeringen National Action Plan for Employment 2001, 2001

## Conclusions

The Danish labour market system has been through a long period of reforms. The reforms have been characterised by the following elements: increased degree of needs orientation (regionally and concerning the unemployed individual), decentralisation, the provision of a right and duty to activation, earlier efforts to mobilize the unemployed persons and shortened benefit periods<sup>78</sup>.

In contrast to international trend for a decline in corporatism, the Danish reform strengthened the role of the social partners, especially at regional level: *Increased influence by the labour market organizations (of employees and employers), decentralization and a more flexible and responsive administration would therefore form the main instruments of the reform*<sup>79</sup>.

Generally the reform process has been a success in terms of bringing down the unemployment rate. However, there are still challenges, which are a direct effect of the attempts of the reform. One challenge concerns the organisational structure. The system has had difficulty adjusting as rapid as the policies intended to a totally new decentralised organisational structure. The new organisational structure has changed responsibilities for all levels of the system.

A challenge, which goes hand in hand with changing organisational structure and trying to form a flexible system, concerns avoiding making the system too bureaucratic. When trying to make the system more flexible and to target the active efforts one can say that there is a risk of making too many rules and thereby creating a bureaucratic system of control instead of making a viable and effective system. For example the introduction of the individual action plan is an attempt to substantiate the efforts made to bring the individual back to employment, however, time spent on forming action plans and the paper work it includes might be more impeding than efficient.

Furthermore, it is a grave problem that although the reforms have been targeted at those with the biggest difficulties of getting into the labour market again, those who are unemployed today tend to have longer unemployment spells.

Other challenges to Danish labour market policies concern questions of keeping the older part of the population in the work force for as long as possible. Voices are also heard criticising the fact that training has become easier to attain as a way of keeping young people away from unemployment. Now it seems to be a big political problem how to get people quickly through the educational system so that they can join the work force.

Although the reform process seems to have a good effect on unemployment, two things should be kept in mind. First of all, on top of the open unemployment rate, there is a hidden unemployment rate containing those who are participating in active measures. This amount was in 1999 3.6% of the labour force and should be added to the unemployment rate of 5.6% in order to get a real picture of the situation. The other point is that the system has been made quite a lot stricter during the 90s and that people are actually forced to activation. Concerns about the principle of rights and obligations are often voiced in the media, because the lowered unemployment rate does not in fact guarantee that people enjoy the time in activation. The fact that the national organisation of unemployed

---

<sup>78</sup> F. Larsen, 1998:1

<sup>79</sup> F. Larsen, 1998: 3



*(Landsorganisationen af Arbejdsledige (LA))* is working to stop the use of this principle expresses that not all unemployed are happy about the 'active periods'. However especially since the unemployment rate began to fall, the LA has not made a big impact in the medias.

In terms of incentives there can still be said to be problems of economic character, however, the right and duty to activation seems to even out some of these problems when considering the unemployment rate.

## References

- Arbejdsdirektoratet (2000): Årsberetning 2000
- Arbejdsministeriet (2000): *Effekter af Aktiveringsindsatsen*
- Arbejdsministeriet (2001a): *Arbejdsløshedsforsikringen*.
- Arbejdsministeriet (2001b): *Arbejdsmarkedsreformerne – ét statusbillede*.
- Bekendtgørelse af lov om arbejdsløshedsforsikring (2001) LBK nr. 603 af 25/06/2001 (in force)
- Bison, Ivano and Esping-Andersen, Gøsta (2000): *Unemployment, Welfare Regime and Income Packaging* in Gallie, Duncan and Paugam (ed.) 'Welfare Regimes and the Experience of Unemployment in Europe'. Oxford: University Press.
- Blom-Hansen, Jens: *Still Corporatism in Scandinavia? A survey of Recent Empirical Findings* in 'Scandinavian Political Studies, Vol. 23 – No.2, 2000
- Danmarks Statistik (2001a): *Statistisk årbog 2000*
- Danmarks Statistik (2001b): *Statistisk tiårsoversigt 2001*.
- Danmarks Statistik (1986): *Statistisk tiårsoversigt 1986*
- Forsikringsoplysningen (1991-2001): *Sociale Ydelser – hvem hvad & hvornår*. Copenhagen: Forsikringsoplysningen
- Hansen, 2001b: *Elements* (to be published in 2002). Copenhagen: Danish National Institute of Social research
- Homepage of the Danish Ministry of Labour: <http://www.am.dk>
- Homepage of Reform Monitor, (Bertelsmann Foundation): <http://www.reformmonitor.org>
- Jørgensen, Thomas Mølsted & Claus Damtoft Pedersen (2000): *Arbejdsmarkedspolitik*. Copenhagen: Copenhagen Business School Press
- Larsen, Mona & Klaus Langager (1998): *Arbejdsmarkedsreformen og arbejdsmarkedet – Evaluering af arbejdsmarkedsreformen III*. Copenhagen: Socialforskningsinstituttet 98: 13.
- Mogensen, Gunnar Viby (ed.) (1992): *Arbejde og Ledighed i 90'erne – en skildring af aktuelle og presserende problemer og reformmuligheder på arbejdsmarkedet, suppleret med kommentarer og vurderinger af Poul Erik Pedersen, Georg Poulsen, Sven Folmer Thomsen og Finn Thorgrimson*. Denmark: Spektrum
- Mogensen, Gunnar Viby (1994): *Unemployment and Flexibility on the Danish Labour Market*. Copenhagen: The Rockwool Foundation research Unit

Mogensen, Gunnar Viby (ed.) (1995): *Work Incentives in the Danish Welfare State – New Empirical Evidence*. The Rockwool Foundation Research Unit. Aarhus: Aarhus University Press

Mærkedahl, Inge: "The Active Labour Market Policy in Denmark". In: *Labour Market Policies and the Public Employment Service – Prague Conference, July 2000*. OECD proceedings

Nososko (1992-2001): *Social Tryghed i de nordiske lande– Omfang, udgifter og finansiering*. Copenhagen Nososko, Nordisk Socialstatistisk Komité.

Ploug, Niels & Jon Kvist (1997): *Overførselsindkomster i Europa, Systemerne i Tal - Social Tryghed i Europa 3*. Copenhagen: The National Institute for Social Research.

Ploug, Niels; John Reib; Niels Chr. Sidenius & Søren Winter (1992): *A-kasserne og de Ledige*. Dokumentation 5: Socialkommissionens sekretariat.

Regeringen (2001): *Danmarks Nationale Handlingsplan for Beskæftigelse 2001*. Arbejdsministeriet, Økonomiministeriet Juli 2001.

Specialarbejderforbundet (1994): *Debatbog om arbejdsløsheden – 10 bidrag til belysning af arbejdsløshedsproblemet og hvordan det kan bekæmpes*. Denmark: Specialarbejderforbundet i Danmark.

TemaNord 1996: 592: *Youth Unemployment in the North*. Copenhagen: Nordic Council of Ministers.

OECD Employment Outlook 1990-2000

OECD Economic Outlook (2001): Vol. 2001/1; No. 69, June

OECD Labour Force Statistics 1979-1999 (2001)

OECD Denmark (1999): *Denmark 1997*. Country chapters from the publication: *Benefit Systems and Work incentives*. Downloaded from OECDs homepage: [www.oecd.org/els/social/mwp/docs.htm](http://www.oecd.org/els/social/mwp/docs.htm)

Økonomiministeriet (2001): *Familier og indkomster*. Økonomisk tema/ Juni 2001. Copenhagen: Økonomiministeriet.