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The Danish “job miracle” A flexible road to full employment



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THE DANISH "JOB MIRACLE" - A Flexible Road to Full Employment?

by

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1. The Danish "Job Miracle"

During the last seven years Denmark has experienced a rather dramatic decline in unemployment. From a maximum of 12.3 percent in 1993, registered unemployment dropped to 5.7 percent in 1999 - the lowest level since 1976.

Not surprisingly this development has caused international interest and even admiration. Or to cite Allan Larsson in his capacity as Director of DGV:

"The Danish model, which provides the theme of this conference, is of particular interest. Over the past few years, Denmark has implemented many of the elements of what is now being pursued as the European Employment strategy of: employability, entrepreneurship, adaptability and equal opportunities. Denmark has done this with impressive results. That is why policymakers in many Member States now look to Denmark as an inspiration for the development of labour market policies in the EU."(fra indlæg på symposium med titlen: *What can we learn from Denmark?*, Wissenschaft Zentrum Symposium, Berlin, 10 February 1999)

And the economic statistics figures *are* impressive. Overall employment grew from 2,531,000 in 1993 to 2,700,000 persons in 1999, most of which in the private sector. This has been accomplished without deficits on the external balance (except for 1998) and rising surpluses on the public budgets.

The purpose of this paper is to present a brief analysis of the factors behind this change with emphasis on the knowledge which can be gained from recent evaluations of the reforms of Danish labour market policy taking place in the years from 1994 and onwards.

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2. A good old-fashioned upswing?

A first factor to note is that the Danish upswing from 1993 and onwards in itself is not an "economic miracle" but a standard example of demand-driven growth. Firstly, an expansion of fiscal policy was allowed in 1993-94. Then came falling international interest rates, rising in housing prices and a credit reform allowing existing home-owners to convert the fall in long-term interest rates into lower housing expenditures. There were parties in the suburbs. In 1994 alone, private consumption grew by 7 percent in real terms. Housing investments took speed. The same happened after a while with private investment in general. Everything according to the standard economic textbook.

Furthermore the reduction in unemployment is less impressive, if one takes into account the inflow to unemployment pensions and leave schemes. If one looks at "gross unemployment" including participation in these schemes and active labour market measures, the reduction in unemployment was from 20.6 percent in 1994 to 16 percent on 1999 (measured as share of workforce). Still a significant reduction, however.

It should also be noted that the total number of adult without employment is much larger than open unemployment or even "gross unemployment". If one includes welfare recipients and other persons on some form of transfer income, the total number of persons aged 15-66 years supported by the public sector were 850,000 persons in 1998 - or 25 percent of the total number adults in this age group. Again, however, from 1993 to 1998 the total number of recipients of transfer income fell by 70,000 persons (Regeringen 1999:21).

3. Growth without inflation is the miracle

But if one takes a closer look, one can argue that the Danish "miracle" is not just a trivial mixture of demand driven growth and hiding a large share of the population in various welfare programmes. The most important observation is that the change from economic stagnation to economic growth and rising employment has been possible without the outburst of wage inflation which normally follows from a dramatic fall in unemployment. Here is a need for further investigation. Has Denmark invented a Scandinavian version of the inflation free growth economy?

The relative succes of the Danish model in recent years has stimulated ideas about the development of a "new" Danish employment system in the form of the so-called "Golden triangle" shown in figure 1.

The argument behind the triangle is that the succes of the Danish employment system is due to its unique combination of *flexibility* (measured by a high level of job-mobility), *social security* (a generous unemployment benefit system) and *active labour market programmes*, which supports the on-going transformation of the economy. The "golden triangle" depicts Denmark as a kind of "hybrid" employment system. Due to an employment protection legislation which allows employers to hire and fire workers with short notice, the Danish system has a flexibility comparable to Ireland, UK, Canada and the US (OECD, 1999, chapter 2). At the same time Denmark through the social security system and the active labour market programmes resembles the other Nordic welfare states.

In the following section a closer look is taken at the role of active labour market policies in the "Golden Triangle"..

4. The labour market reform of 1994

During the years from 1979 til 1993, the main pillar of the active policy towards long-term unemployment was a programme of job-offers, training and support to unemployed starting as self-employed. This programme showed rather poor results enabling only a minority of the participants to become employed at the open labour market. This - together with a new sharp increase in unemployment from 1990-93 - increased the political pressure for finding new measures to break the vicious circle of long-term unemployment. The result was a general labour-market reform being put into force on January 1, 1994, which had as its main characteristics:

- I. changing the assistance to the long-term unemployed from a rule-based system to a system based on an assessment of the needs of the individual unemployed
- II. decentralising policy implementation to regional labour-market authorities, which were empowered to adjust programme design to fit local needs
- III. cutting off the connection between job-training and the unemployment benefit system implying that any employment with a wage-subsidy no longer would increase the duration of the period, where an unemployed was eligible for unemployment benefits
- IV. introducing a number of paid-leave arrangements to encourage job rotation by allowing employed (and unemployed) persons to take leave from the labour-market

In the following sections recent evaluation results are presented. The first sections describes evaluations of the active labour market programmes, while the following section focuses on the experiences from the leave scheme.

5. Employment Effects of Activation in Denmark - The Latest Results

During the last decade the knowledge about the employment effects of active labour market programmes in Denmark has increased dramatically. There are several reasons:

- I. the increased political focus on active labour market measures following the labour market reform of 1994
- II. the increased use of administrative registers to construct data sets describing the transitions between different labour market situations at the individual level (longitudinal data sets)
- III. the growing skills of labour markets experts and researchers

The main purpose of this section is to summarize the recent outcome from some of these studies. As an introduction, a brief outline of the results from earlier evaluations of the effects of Danish labour market policy is presented.

The labour market reform of 1994 was evaluated during 1996-98. Results have been published from general evaluations of the implementation process and from a number of evaluations of the effects of the various instruments. A survey can be found in Madsen (1998a).

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

- I. The individual action plans are conceived by the unemployed as positive and relevant instruments to plan their return to normal work

II. The unemployed were generally satisfied with the programmes in which they took part (job training, education etc.)

III. Based on a large scale longitudinal data set with information on the individual unemployed, it was estimated that most of the programmes also reduced subsequent unemployment for the participants. The exceptions were educational leave (decided by unemployed) and some other forms of education. But both private and public job training and education targeted at increasing the employability of the unemployed had significant effects in the form of lowered subsequent unemployment.

IV. Also, not surprisingly, the improved state of the economy since 1994 had contributed to the success of the activation programmes.

V. The programmes directed at the younger unemployed (under 25 years of age) and involving stronger obligations to undergo education and a lowering of unemployment benefits after 6 months of unemployment, have proved to be a success in the sense that most of the young unemployed in the target group left unemployment either to take an ordinary job or begin an education.

VI. The "dead-weight" observed when wage-subsidies are used for job-training is limited (level of 20 to 30 percent) compared to international experiences.

These results are mainly from evaluations conducted in 1995-96. The new evaluation results discussed below therefore gives the opportunity of study the robustness of these results in the light both of the changing in the overall economic situation and the adjustments in the active programmes themselves.

In a study published in March 2000, the Ministry of Labour presents some of the first results from using a new database developed by the Ministry (Arbejdsministeriet, 2000). The database, the so-called DREAM-register, has information about the labour market situation of the individual persons and also about their participation in labour market programmes and contact with the social security system.

The study focuses on potential micro-level effects of active labour market programmes:

I. The *motivation effect* which implies that an unemployed person more actively looks for work in the period immediately *before* the person has to participate in an activation programme. It is thus assumed that participation is partly involuntary and that the unemployed will try to avoid taking part in programmes by "escaping" into employment (or other activities like ordinary education). The strength of the motivation effects will thus be indicated by the change in the probability to leave unemployment during the period immediately before a person is obliged to take part in an active programme.

II. The *training (or qualification) effect*, which stems from the rise in the level of the qualifications during participation. Thus the chance of getting a job should increase for those having left one on the active programmes.

III.

In the following sub-sections the results concerning each of the effects are summarized.

The motivation effect of activation

One of the main changes in Danish labour market policy during the period since 1994 has been a gradual reduction in the period, where the unemployed would receive unemployment benefits without having to participate in activation. In 1994 this period was 4 years (with an option for activation for 12 months during this time). In 1996 this "passive" period was reduced to 2 years. Also in 1996, for young un-skilled unemployed the period was reduced to

only 6 months. In 1999 it was decided to further reduce the "passive" period for adult unemployed to 1 year. Thus by the end of 2000, Denmark will fully have implemented the two first of the EU Employment Guidelines.

This has of course meant an increase both in the number of persons activated and the "degree of activation" (the number of activated as a share of the sum of activated and unemployed). By example, the "degree of activation" has increased from about 15 percent in the mid-1990s to approx. 30 percent in 1999.

The reduction in the period of passive benefits may of course have a number of motives. One could be the argument that long periods of passivity will further reduce the prospects for re-employment because the unemployed will loose both general and job-specific skills. Another argument will be the idea of the motivation effect described above. On the other hand early activation incorporates the risk of deadweight losses in the sense that activation will be offered to unemployed who would otherwise have found a job by themselves. Thus a central dilemma in the design of labour market policy is finding the right timing of passive and active measures.

The overall conclusion from the evaluation of the motivation aspect of active measures in Denmark is that significant effects can be identified in the data indicated by rising probabilities to leave take up employment in the time immediately before having to take part in mandatory activation programmes. However, one should also be aware of the specific dilemma posed by this observation. If one wants to increase the size of the motivation effect, one could be tempted to change the content of activation programmes in order to make them less attractive to the participants. However, this would probably also imply that the *quality* of the programmes themselves would be lowered measured by their content of training and other activities to improve the skills of the participants. Thus for those unemployed, who are unable to get a job before entering activation, the overall outcome might be less positive.

The training effect

Another potential effect for the individuals taking part in active programmes is of course that they increase their chance of gaining employment after participation due to the increase in their qualifications and thus their employability. It is well known from the literature on the methodology of evaluations that there are a number of pitfalls in focusing solely of the share of participants who become employed after leaving the programme. The participants may become employed for reasons unrelated to their participation and different employment outcomes of different programmes may be due to differences between characteristics of the participants rather than between the content of the programme itself.

In the new study from the Ministry of Labour, these well-known problems are tackled by applying both the technique of fixed-effects models and duration analysis. The study applies a simple version of the fixed-effect technique, where the effects of participation in different measures are estimated by averaging the change in unemployment after leaving activation for all individuals having been in a specific programmes. The change is measured relatively to the average unemployment situation for each individual. The methodological point is thus that *each individual is compared to itself*, thus reducing the need for a separate control group, which might differ from the participants with respect to observable or unobservable characteristics.

To apply this form of analysis, one thus needs information about the individual labour market histories of all participants. In the analysis discussed below, reduction in unemployment is

measured as the reduction in the share of the period in which the persons received transfer income (unemployment benefit, social security, sickness payment etc.). The data thus takes into account not only unemployment benefits but all kinds of transfer income related to social policy and labour market policy. A reduction in this measure is thus a reliable indicator of a genuine improvement in the employment situation of an given individual - either as having gained ordinary employment or taken up some form of ordinary education.

Considerable interest is of course associated with isolating the effects of different labour market programmes. Figure 2 summarizes the results from the simple fixed-effect estimates in the recent study.

In most respects the results reported in figure 2 are similar to the outcome of previous Danish studies applying the fixed-effects method (Langager, 1997). One thus finds that the largest reductions in unemployment are found for participants in private job training. Public job training, training in job search and targeted education with support from the Labour Office have positive, but lower effects. For non-supported education (typically training in very basic skills) and for educational leave, the effects are positive but very small. These findings are also in line with international experiences (Martin, 2000).

Again one has to be aware of the need to interpret these results carefully. Firstly, there is still a possibility, that the different effects reflect some form of heterogeneity among the participants in the sense that the Labour Office allocates different groups of participants to different measures according to assumptions about their ability to benefit from specific programmes. Therefore one cannot be certain that the larger effects of private job-training could still be obtained, if much larger groups were included to participate in this measure. Secondly, the differences observed may not reflect differences in the quality of the programmes as such. For instance differences in recruitment procedures and number of job-openings between the private and the public sector could lead to different outcomes of public and private job training irrespective of the content of the different programmes.

Finally, the results have to be evaluated with a view to the costs of the different measures. Here the study makes a few simple calculations of cost-effectiveness, which indicates positive budgetary effects for public and private job training and negative effects of education. However, the estimates are of a very crude nature and for instance only includes the effects on public savings in expenditures on unemployment benefits etc. for during the first year after leaving a programme. More refined techniques will therefore have to be applied, before reliable estimates of this nature can be developed.

6. The Danish Arrangements for Paid Leave

This section takes a closer look at the paid-leave arrangements (PLAs), which probably form the most innovative element in Danish labour market policy in the 1990s. Table 1 gives an overview of the three main forms of PLAs introduced by the labour market reform in 1994.

Table 1: The Danish paid leave arrangements in the labour market reform of 1994

	Education leave	Sabbatical leave ⁴⁾	Child-minding leave
Target group	1. Employed 2. Unemployed 3. Self-employed	1. Employed	1. Employed 2. Unemployed 3. Self-employed
Applicant must be eligible for unemployment benefits?	Yes	Yes	No
Maximum duration	1 year	1 year ²⁾	26 weeks/1 year ³⁾
Right for the applicant?	No	No	Yes (up to 26 weeks)
Mandatory substitute?	No	Yes	No
Amount paid as share of unemployment benefit	100 percent	60 percent ¹⁾	60 percent ¹⁾

Notes: 1) The benefits for sabbatical leave and child-minding leave were originally set to 80 percent of unemployment benefits. They were in 1995 reduced to 70 percent and were further reduced to 60 percent in April 1997. 2) From 1995 the minimum duration of a sabbatical is 13 weeks. 3) From 1995, the right to leave for child-minding is reduced to 13 weeks, if the child is older than 1 year. 4) The leave for sabbatical was terminated in 1999

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

Right from the start, the PLAs proved to be very popular. The average number of persons on leave thus increased from 17,900 in the 1. quarter of 1994 to 80,200 in the 4. quarter. The total number of persons granted a leave in 1995 was 144,000, while the average number of whole-year persons on leave was 82,000. This can be compared to an open unemployment in 1995 of 288,000 persons. The number of participants in the leave schemes has diminished somewhat in recent years due to more restrictions on eligibility and compensation and to the improved situation on the Danish labour market. Thus in the 3rd quarter of 1999, the total number of full-time participants in PLAs was down to 29,000.

Employment effects of PLA's in the short and the long run

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

- I. The number of registered unemployed decreases by one person, every time an unemployed person takes leave. If an employed person takes leave, the decrease in registered unemployment is related to the share of vacancies being filled with substitutes.
- II. Total employment falls when employed persons take leave, except for the case when all vacancies are filled by substitutes
- III. The sum of registered unemployed and persons on leave will increase unless and vacancies are filled by previously unemployed substitutes
- IV. Total public expenditure on unemployment benefits and compensation to persons on leave will fall every time an unemployed takes leave, if the compensation is less than the

unemployment benefit. For employed persons taking leave, the effects on public budgets will depend on the relation between the replacement rate and the share of the compensation in relation to unemployment benefits. *If the replacement rate is higher than the rate of compensation, there will be net public savings.*²

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

I. *The supply of labour may be influenced.* The direct effect of leave schemes is to reduce the supply of labour. However, the increase in the demand for labour stemming from the hiring of substitutes may also increase the supply of labour and thus reduce the short run effect on unemployment described above. One could also imagine that the paid leave arrangements themselves will act as an incentive for some persons to enter the labour force in order to benefit from the schemes, though rules for becoming eligible to the PLA are set up in order to diminish this kind of "moral hazard". To the degree that the PLA's reduce marginalization, the effective supply of labour will also be increased in the longer run. Therefore, it is very difficult to make quantitative estimates of the effects of the PLAs on the supply of labour.

I. *The fall in unemployment caused by the PLAs may in the longer term lead to wage pressure.* If the PLA implies bottlenecks on segments of the labour market that act as wage leaders, the wage effects will be larger than in the cases where paid leave is mostly taken by groups with high unemployment. Increasing wages will have negative effects on international competitiveness and increase unemployment. Also in this case, the actual size of these effects is very hard to estimate.

I. *The PLAs will probably have positive impacts on the qualifications of the workforce.* Especially from the educational leave one can expect an increase on the qualifications of the persons on leave, while at the same time the substitutes undertake on-the-job training. Therefore the PLAs can increase the growth potential of the economy and diminish the risk of bottle-necks caused by lack of qualified labour.

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

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

² This conclusion are based on a simple economic model of the short term effects of paid leave arrangements (Madsen, 1995). For further discussions of the Danish PLAs, see Madsen (1998b,c) and Madsen (1999a).

Table 2 sums up some potential economic and non-economic risks and benefits from a macro-perspective.

Table 2: Some benefits and risks of publicly financed paid leave arrangements at the macro level

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

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

The Evaluation Results

The leave schemes were extensively evaluated in 1996 (Andersen et al,1996; Pedersen,1996). Among the main results were:

- I. Half of the persons taking leave are unemployed and a majority are women. About 60 percent of the employed taking leave are from the public sector. The average duration of a leave is approx. 200 days.
- II. Educational leave is mostly taken to improve formal qualifications in relation to the current employment situation. Of those employed taking educational leave about 50 percent did so together with colleagues. For 12 percent the leave was in relation to a formal project of jobrotation. In 1996 the total number of persons taking part in such jobrotation projects was 36,000. In 1998 the figure had fallen to 27,000. Both employers and employees have very positive evaluations of educational leave.
- III. Childminding leave is mainly taken by women (90 percent). The attitude of firms is more critical in this case.
- IV. The paid leave schemes implies both costs and savings for the public sector. The net effects of the schemes is estimated at between 0.4 and 1.5 billion DKK in 1995 depending on the assumptions concerning the share of vacancies being filled with substitutes. This amount to between 5,000 and 20,000 DKK per person on leave (on a full-year basis).

V. On average about 3/4 of the vacant jobs are filled by substitutes. The replacement rate is higher for public employers and for smaller firms. When interpreting these figures, one should however be aware of the fact that the Danish labour market has experienced a strong upswing from 1994 and onwards.

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

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

VIII. On average, 36 percent of the substitutes stayed with the same employer after the end of the leave period - a figure which can be compared to fact 3 showing that 27 percent of the substitutes were already employed by the firm before taking the job as a substitute.

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

The pros and cons of PLAs

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

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

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

For the budgets of the public sector, publicly financed PLAs are in the short run a limited net burden, because there are savings in unemployment expenditures. The size of the net costs will depend on the relation between leave compensation and unemployment benefits and on

the degree to which substitutes are taken in. To this can be added savings in other areas, e.g. on the budgets of child-minding-institutions.

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

Especially concerning the macro-political level, it is worth pointing to the significant popular support for the PLAs. The main cause is probably their element of work-sharing, which is easy to explain in simple terms. Also, the PLAs seem to fulfill important needs in the daily life of large parts of the population. On the other hand, a number of experts, political parties and labour market organisations have expressed great scepticism towards the PLAs.

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

Therefore it is important to emphasize that in the longer perspective the most interesting aspect of the PLAs may well be that they represent a new way to increase the flexibility of working time over the individual life cycle and thus realize the underlying tendency to the fall in working time that has been seen over the whole postwar period. This trend has traditionally expressed itself as lower daily working hours, longer vacations or a lower retirement age. Here the PLAs represent a further possibility where the individual employee steps back from working life, but only for a limited period of time, to take up further education, childminding or personal development. The experiences with the Danish PLAs indicates that such a flexible reduction of working time fits the preferences of large parts of the population and thus should be an important kind of "transitional labour market" in the future (G. Schmid, 1995; Auer and Schmid, 1998).

7. Labour market reforms and the "job miracle"

The evaluations discussed so far have focused on the micro level. However, the coincidence of the implementation of the labour market reform and the dramatic fall in unemployment has of course stimulated the discussions about the extent to which the inflation-free macro-economic upswing can be attributed to the shift in labour market policy in the 1990s (Madsen, 1999b).

As an introduction, figure 3 shows the remarkable synchronisation between a shift in the Danish Phillips curve in 1993-94 and the reforms in labour market policy. Since 1994 the Danish Phillips-curve has taken almost a horizontal shape, indicating a steep fall in structural unemployment.

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

evaluations of the labour market reform, there is a case for arguing that the change in Danish labour market policy in 1993-94 has given a significant contribution to the improved functionality of the Danish labour market in recent years.

A recent study from the Danish National Institute of Social Research aims at summing up the evidence from the large-scale evaluation programme studying the labour market reform of 1994.³ The general question asked is whether the labour market reform and the subsequent adjustments in labour market policy has had a positive impact in the functioning of the labour market. Not surprisingly, such a question must be answered with considerable care. However, the evaluators sum up their investigation in the following points (Larsen & Langager, 1998, pp. 34-36).

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

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

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

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

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

The lack of significant shortages of labour since 1994 - in spite of the fall in unemployment and strong growth in employment - could indicate that the functioning of the labour market has been improved. Whether this is solely due to the reform or also to other factors (including changes in wage-setting behaviour) cannot be definitively decided on the basis of the available evidence.

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

8. The transferability of the Danish experiences

The question of the extent to which the Danish experiences can be transferred to other countries is complicated.

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

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

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

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

Firstly, the Danish experience point to the importance of the macro-economic environment. By themselves, labour market policies cannot generate ordinary jobs. A sufficient "pull" from the demand side is a necessary condition. In the other hand, once the upswing is on its way, labour market policies plays an important role in securing the supply of qualified labour and avoiding bottle necks.

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

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

Apart from these more specific elements one can finally point to the way in which the Danish employment system combines a very flexible employment relationship with only few restric-

tions with a good coverage of the unemployment benefit system and the principle of right and duty to activation.

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

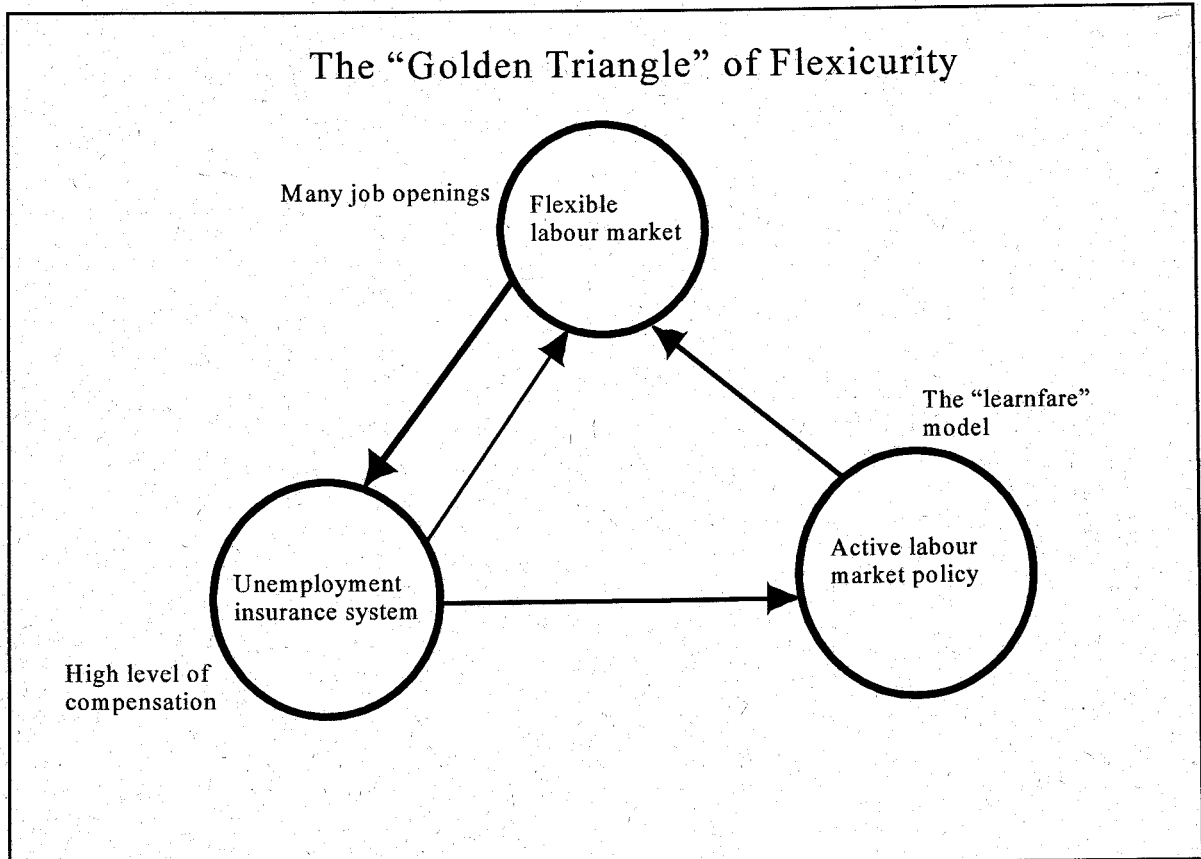


Figure 1: The “Golden triangle” of the Danish employment system. Source: Arbejdsministeriet, 1999, p. 7.

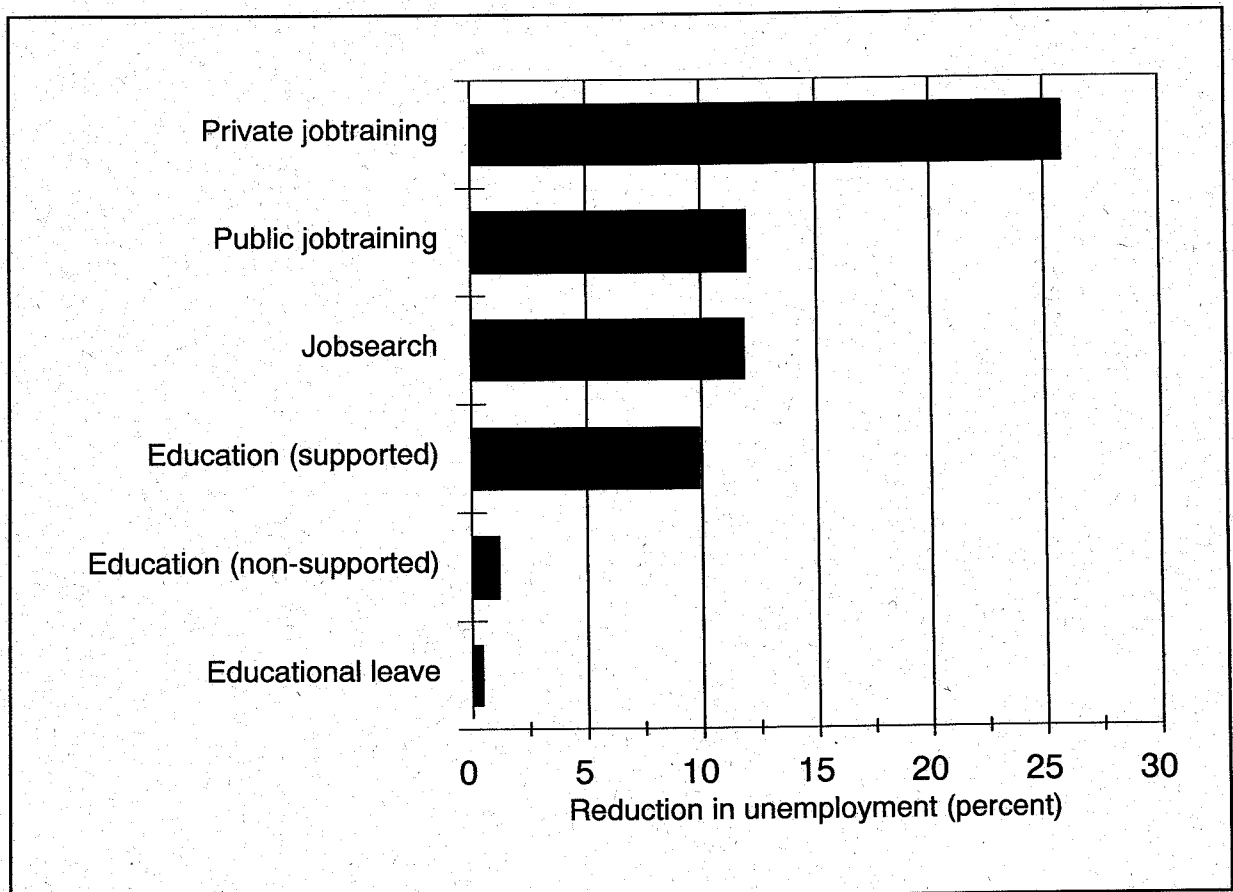


Figure 2: Reduction in unemployment after taking part in different programmes, averages for 1996-1998. Source: Ministry of Labour, 2000, appendix 5.1.

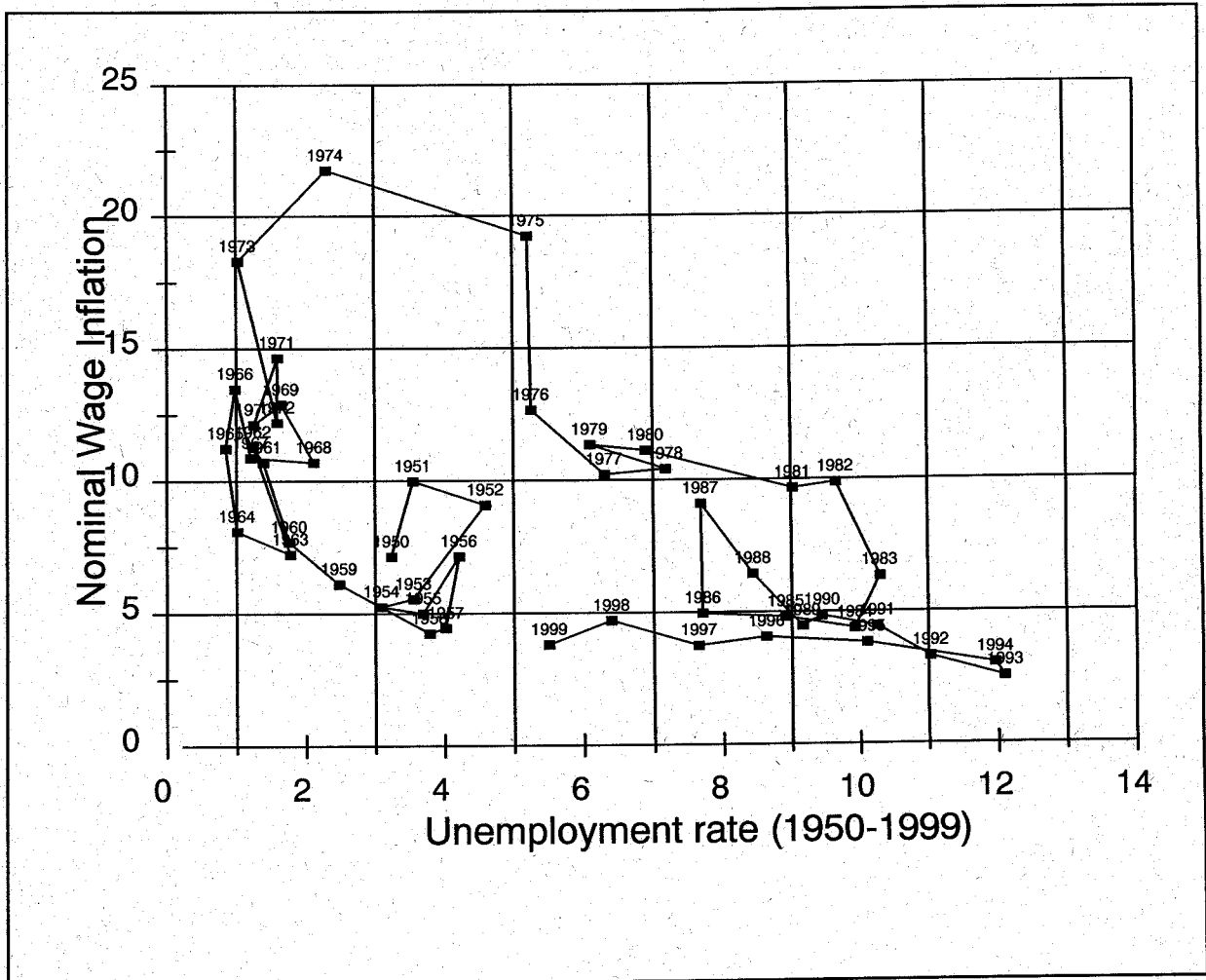


Figure 3: The Danish Phillips Curve 1950-1999. Source: ADAM's data base.

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