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Bo Hammer

Employment Promotion – The Danish Case

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Employment Promotion – The Danish Case

Bo Hammer, Ministry of Economic Affairs, Copenhagen

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1 Preface

It's a great pleasure for me to be given the opportunity to present the Danish case – or route to a remarkable rise in employment.

From a weak position in the 1970s with rising foreign debt, high inflation and interest-rates, the Danish economy has improved. Good results have been produced in terms of wealth, employment, macroeconomic balances and equality.

The recovery from 1994 must be seen as a result of a broad range of structural reforms which have been taken to improve private and public financial savings and to improve the functioning of labour and product markets.

This should be kept in mind when I from now on am going to concentrate on the labour market reforms which we have introduced in the past years and on the perspectives and visions for the *future* employment policy.

2 The reforms and the thoughts behind them

The Danish employment policy has changed radically since 1994, where decisions were taken to implement a major re-

form of especially active labour market policy. The reform has since been adjusted and adapted on a current basis to the change in the economic situation.

The main elements of the labour market reform from 1994 are the following:

- Abolition of the right to requalify for unemployment benefits by means of subsidised work
- Early activation for exposed groups
- Measures to prevent bottlenecks
- Individual action plans for unemployed persons
- Decentralisation
- Better possibilities for taking leave
- Extension of adult and continued vocational training activities

The reform started a process of further adjustments:

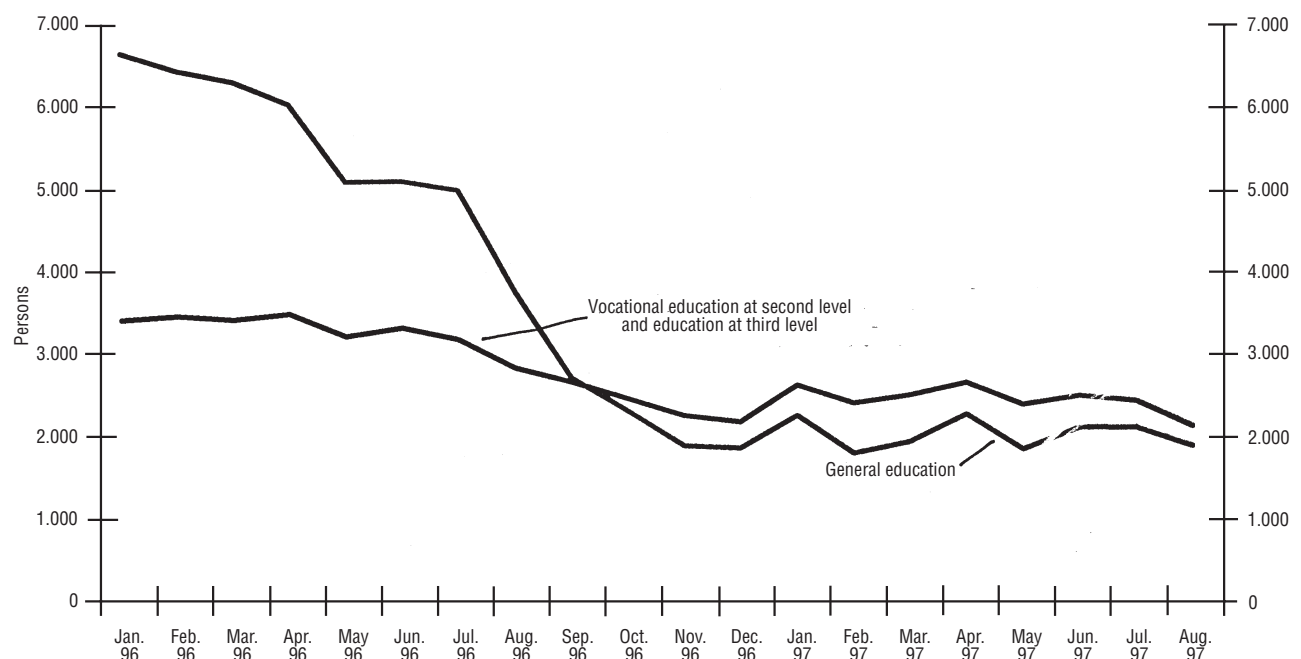
In the spring of 1995 a package of labour market tightenings was introduced on the background of steeply falling unemployment. One crucial aspect were the tightenings of the availability rules for the unemployed.

The overhaul in 1995

- Right and obligation to full-time activation after 4 years unemployment
- Stricter rules on availability for work
- Tightening of the leave schemes (incl. reduction of the rates of the leave allowances)

In the autumn of 1995 the parliament decided for further and rather large tightenings of labour market policies. Availability rules were tightened again. The work criteria for access to the benefit system was widened from 26 weeks to 52. The be-

Insured unemployed persons under 25 years 1996-1997



nefit period was cut from 7 to 5 years, together with an advancement of activation. At the same time tightenings of the cash benefit system (for those not eligible for unemployment benefits) were made.

Most importantly unemployed aged 25 years and younger without a qualifying education are no longer allowed more than 26 weeks on passive benefits. Thereafter they must either find an ordinary job, start on an ordinary education, or begin tailor-made education at a benefit level equal to approximately half of the unemployment benefit.

The agreement on the Finance Act - 1996

- Shortening of the unemployment benefit period
- Right and duty to full-time activation after 2 years unemployment
- Special measures targeted on young persons without any educational or vocational training
- Stricter rules on the employment requirement in connection with entitlement to unemployment benefit
- Stricter rules on unemployed persons possibilities of taking leave
- Requirement of availability for work during periods of participation in training
- Better opportunities for adult and continued vocational training for low-skilled persons
- Abolition of the transitional allowance scheme

These radical reforms seem to have had a major impact upon the functioning of the Danish labour market.

3 Effects of the labour market reforms

In spite of some minor problems in the initial phase we are now seeing the very positive effects of these reforms.

The effects of the labour market reforms 1994-1997

- Stricter rules on availability for work, for instance in the form of right and duty to activation
- More intensive job-seeking activities among the unemployed
- Bigger and more effective supply of labour
- Fewer long-term unemployed persons receiving passive benefits
- Up-grading of skills through the intensified education and training activities
- Lower level of structural unemployment
- More effective measures to prevent bottlenecks

We are now starting to see the results of a more well-functioning labour market. Over the past 3 years we have experienced an unexpected heavy fall in unemployment and – this is a very important note – this has *not* lead to an overheating of the economy.

The average unemployment has fallen by more than 130,000 persons since mid-1994. The rate of unemployment is now under 8 per cent.

The fall in unemployment is mainly due to the growth in employment, and especially in *private sector employment*, especially private services.

It is important to note in this connection that the fall in unemployment is *not* caused by an extension of labour market policy measures.

Long-term unemployment has been more or less halved since mid-1994.

Employment, unemployment, labour force and Unemployment Insurance Benefits-related schemes

	1994	1995	1996	1997	1997-1994
	Thousands				
Labour force	2824	2809	2793	2825	1
Employment:	2481	2521	2548	2603	122
- Manufacturing	496	512	505	509	13
- Private services	918	939	960	983	65
- Construction	162	169	168	173	11
- Other private	129	128	127	126	-3
- Public sector	776	774	788	811	35
Unemployment	343	288	246	222	-121
UIB-related schemes:	193	240	254	248	55
Temporary-schemes:					
- Leave-schemes	49	82	63	46	-3
- Education	25	21	25	30	5
Early retirement:					
- Transitional allowance	8	23	46	42	34
- Early retirement	111	114	120	130	19

Source: Statistics Denmark and Ministry of Economic Affairs

The fall in unemployment has not lead to unacceptable increases in wages and salaries. The wage is still under 4 per cent per year.

The past 3 years have shown that it is possible to introduce reforms which lead to a more flexible labour market which can underpin a positive development in the economy and thus ensure that the economic growth leads to lower unemployment.

4 The future employment strategy

The reforms we have introduced were very ambitious. Right now the Danish Government has chosen not to lean back and rest on the laurels, so to speak. On the contrary, the government has set new and very ambitious targets for the future.

Denmark's general employment strategy up to year 2005 is based on the following main principles:

General objectives for the future

- Macro-economic objectives:
 - low inflation (target about 2 % per year)
 - surplus on public budgets (target: reduction of debt from 67 % now to about 40 % of Gross Domestic Product (GDP) in year 2005)
 - surplus on the balance of payments (target: no debts by year 2005)
- Employment objectives:
 - 30,000 new job each year
 - mainly in the private sector
 - 150,00 fewer persons in the economically active age group on transfer incomes by year 2005
 - full employment by year 2005 (corresponding to an unemployment rate of 5 %)

These objectives and targets are very ambitious but they are *not* unrealistic if we look at developments over the past 3 or 4 years.

How are we to achieve these ambitious objectives and reach the targets which we have fixed?

The main fields of action in Denmark's future employment strategy will be the following:

- A stabilising macro-economic policy
- Good framework conditions for trade and industry
- High level of quality in education and training programmes
- Tax reforms which promote the incentive to work, the propensity to save and environment-friendly behaviour
- further development of infra-structures
- Continuation of labour market reforms

I will concentrate on this last point: the continuation of the labour market reforms. The main elements will be the following:

Denmark's employment strategy: Continuation of labour market reforms

- Continued tightening of the rules on availability for work through the right and duty activation
- Adaptation of the unemployment benefit system to a more flexible labour market
- Strengthening of early measures to prevent bottlenecks and of enterprise-oriented measures
- Streamlining of adult and continued vocational education and training programmes
- Ensuring that SMEs participate in adult and continued education and training activities
- A broader labour market: creation of 30-40,000 flex-jobs for persons with reduced working capacity

- a senior staff policy which encourages older persons to stay longer on the labour market
- a better working environment

The labour market policy and the employment policy will continue to play a central role in the overall national economy strategy also in the years to come.

The positive experience with a combination of a stabilising macro-economic policy and structural reforms on the labour market will be used to continue along the lines which have been laid down over the past few years.

6 Concluding remarks

Until now Denmark has with success combined very radical structural reforms on the labour market with the maintenance of high social standards.

Our experience is that it *is* possible to create a more flexible labour market without cutting down the benefits of the weakest groups on the labour market.

Denmark has chosen an *active* line. The *key-words* are:

- ordinary (unsubsidised) employment
- up-grading of skills and qualifications
- active policies instead of passive policies, and
- the continuation of a socially fair distribution policy.

Denmark intends to continue on this track into the next millennium.

Thank you for your attention.